BUSINESS WEEK

ONE CURVE THAT'S UP — The cost of national defense — viewed by business as a budget-unbalancer but also as a pump-primer.

McGRAW-HILL PUBLISHING COMPANY, INC.

20 CENTS

When profit hangs by a THREAD

When you want to speed up bolted or riveted assembly in your plant—when you wish to retain customer good-will after the sale of items shipped knocked-down with the necessary fastenings—when ultra-safe fastening is a vital consideration—you will find Upson headed and threaded items competent for every need—and always dependable.

Upson Quality bolts, nuts and rivets are made from Republic steels—the same steels that you can use to advantage in other parts of your product requiring steel sheets, strip, drawn shapes, pipe, tubing or any one of many other forms.

Years ago, Republic pioneered the making of better steels for special uses. New steels from Republic plants continue to save money for steel users. You can very profitably, and without obligation, ask a Republic man to look over your operations with the object of supplying helpful suggestions on the most up-to-the-minute steels available for your use. Republic Steel Corporation, Cleveland, Ohio.

REPUBLIC STEEL

BERGER MANUFACTURING DIVISON
NILES STEEL PRODUCTS DIVISION
UNION DRAWN STEEL DIVISION
STEEL AND TUBES, INC. TRUSCON STEEL COMPANY

REPUBLIC STEEL

Facts about REPUBLIC

- Is world's largest producer of alloy and stainless steels
- Operates the most efficient type of cold rolled tin plate mill known to industry.
- Is a leading producer of special steels for agriculture

BIG BUSINESS—NO. 6

How Big Are Corporation Profits?

CORPORATIONS are supposed by some people to make large and even exorbitant profits.

But Treasury Department figures indicate that the return on the net worth of all the 500,000 corporations reporting for tax purposes averaged only 2.07% annually from 1925 through 1935. Even in the prosperous years 1928-1929, the average return was less than 6%. For the depression period 1930-1935 the corporate system as a whole lost 8 billions more than it made. In the best year of the 1930-1935 period the average rate of earnings was below 1%.

Leading corporations in certain industries may be able in good years to do very well, but such good fortune merely offsets the unfavorable years that companies in any industry inevitably encounter. For every dollar of profit that was made by one corporation in the period 1925-1935, some other corporation lost 58 cents.

But how big are the profits of conspicuously successful corporations? In a recent study by the Twentieth Century Fund, figures are given on 40 industrial companies considered outstanding with respect to size and profits for the period 1919-1934.

In no year of that sixteen-year period did the average earnings of these 40 companies exceed 12.4% on total capitalization. The average annual profit for the entire period was only 8½%, and in one year the average profit was 1.4%. From this same study it also appeared that the size of a corporation was no index to earning capacity, and that the best earnings were obtained in fields of active competition.

The return on capital should not be judged by the profits of exceptional companies in especially good years, but by the average results for all corporations over a period of years.

As bankers for commercial and industrial enterprises, it is part of our responsibility to contribute something to a better understanding of the facts about private business.

BANK OF NEW YORK & TRUST COMPANY

48 Wall Street · New York

UPTOWN OFFICE: MADISON AVENUE AT 63RD STREET

New York's First Bank *Founded in 1784*

NEW BUSINESS

"Bock beer, with all its flavor and body, is now here!" reads metropolitan newspaper copy prepared by Street & Finney and appearing today, Jan. 15, under the sponsorship of Fidelio Brewing Co., New York. Gone will be Bock's annual job as harbinger of spring in favor of a two-month assignment to assuage winter thirsts. Proponents of the new advertising plan feel it possible and probable that the dark, heavy brew will quickly become a cold weather favorite.

Since the airplane is peculiarly adapted to the difficult transportation problems of Alaska's interior, more *per capita* flying is done there than in any state of the Union. According to *Express Messenger*, monthly magazine of Railway Express Agency, planes now deliver express and mail during winter months, making trips in three hours which formerly took 17 days. Despite it all, the dog team survives, even though mental pictures of Alaska as vast stretches of barren snow dotted here and there with Eskimo igloos are largely figments of the movies and the pulps. Three quarters of Alaska's area lies within the North Temperate Zone.

Tuesday of this week over 300 distributors, regional and branch managers, salesmen, and gentlemen of the press barged into York, Pa., for York Ice Machinery Corp.'s three-day 1938 Conference and Exposition. Chief drawing cards were five new developments in air conditioning and refrigerating, and the revelation of sales plans calculated to make 1938 a bigger year than 1937, which incidentally gave York a bigger volume than 1929.

Biggest show of the coming week will be the 1938 Road Show of American Road Builders Association, Cleveland, Jan. 17-21. Next biggest will be that of National Association of Dyers & Cleaners, Stevens Hotel, Chicago, Jan. 17-20.

Back in 1932, during the darkest days of the depression, a little group of practical production men in Detroit's automotive industry started a new kind of technical association, all their own. They named it American Society of Tool Engineers and framed bylaws to guarantee that entertainment would be secondary to the free interchange of technical information on mutual production problems. Idea clicked and spread. New chapters sprang up in other production centers, the membership doubling in 1936 and again in 1937. This year, the A.S.T.E. members, who pretty much control the nation's tool purchases, are going to open their own four-day Machine Tool & Progress Show, national in character, at Convention Hall, Detroit, Mar. 9, right at the onset of spring tool buying.

One advertising gadget which clicked at the Motor Boat Show, this week was a large gelatin capsule, apparently fresh from the drugstore, bearing the one intriguing word, "Dope." Who could resist opening it? Inside a tape, when unwound, read: "Dope on Stewart-Warner Recording Instruments . . . Mallory Waterproof Ignition . . . Oberdorfer Traps and Pumps . . . Doherty's Marine Equipment Service, 58 W. 65th St., New York."

Back in 1914, when A. P. Giannini opened the first branch of his San Francisco bank in Los Angeles, he began to evolve his theory that a bank's services should be sold like the goods on a merchant's shelves. Ever since then the bank has applied "department store advertising principles" to bank promotion. That public relations are to play an even larger part in Giannini policies is indicated by the appointment of A. J. Gock, vice chairman of the board of Bank of America, to head a new department which will supervise and coordinate advertising, publicity, business extension, and relations with other banks. The 1938 advertising program, under the personal direction of L. M. Giannini, now president, carries on appropriation of more than $550,000. Newest arm of the public relations department is a speakers' bureau comprised of 200 special selected and trained employees.

First direct communication facility to be established between the United States and Reykjavik, Iceland, is the new radio telegraph circuit just opened by R. C. A. Communications, Inc.

First deep test well to determine Georgia's oil-producing possibilities will be drilled in the near future by Pan American Production Co., affiliate of American Oil Co. A two-year survey of southeastern Georgia has resulted in the leasing of large acreages in Wayne, Appling, Pierce, and Coffee Counties.

BUSINESS WEEK (with which is combined The Magazine of Business) January 15, 1938, No. 4[illegible]. Published weekly by McGraw-Hill Publishing Company, Inc. Publication office, 99-129 North Broadway, Albany, N. Y. Editorial and executive offices, 330 W. 42nd St., New York, N. Y. James H. McGraw, Jr., President; Howard Ehrlich, Executive Vice-President; James H. McGraw, Honorary Chairman; Glenn Griswold, Vice-President and Publisher; B. R. Putnam, Treasurer; D. C. McGraw, Secretary; A. W. Morrison, Circulation Manager. $5.00 per year in U. S. A., possessions and Canada; $7.50 per year in all other foreign countries; 20c per copy. Entered as second class matter December 4, 1936, at the post office at Albany, N. Y., under the Act of March 3, 1879. Printed in U. S. A.

WASHINGTON BULLETIN

WASHINGTON *(Business Week Bureau)*—**Volunteer action by top rank industrial executives inspired some hope this week that the White House and business will find common ground for cooperation. It is significant that this group, with the attacks of Jackson, Ickes, and Roosevelt himself still ringing in its ears, sought this conference with the President. It was a demonstration that business doesn't have to be drafted, that help in putting business back on its feet will be volunteered even by those who have been identified with the Liberty League and bitterly castigated by the New Deal as economic royalists.**

Encouraging But Not Resultful

Washington observers did not regard the rapprochement with a great deal of optimism. It's a long step from the Union League Club in New York, where this prelude to cooperative effort had its birth, to the White House. The heads of several great industries got a cordial reception but business still has to reckon with the fact that the conference did not get down to cases on taxes, on labor, nor on the President's plan to bind free competitive enterprise to a still uncertain degree of government planning and regulation. The closest approach to a "proposition" lies in Roosevelt's idea that if business leaders can find a way to get five million men back to work, he can find a way to give them the assurances they want as to the future.

Progress Only by Compromise

Sec. Roper's Business Advisory Council will meet with Roosevelt Jan. 19, and it is expected that other groups of business leaders, representing various attitudes towards the Administration, will seek to cement cooperative relations with the White House, but any such understanding which evolves must be reduced to definite terms or the fog of uncertainty won't be lifted. After proposals have been submitted and considered, the practical result will hang on compromise.

Still the Quarterback

The President to date has shown no disposition to depart from the New Deal's "reform" program. He may reject the overtures of business leaders when informed of their terms. He may go before Congress and the country with the indignant assertion that he asked for bread and they gave him a stone. The thing to keep in mind is that the President has not shown his hand, that he's still playing on mass psychology in order to appraise the political as well as the economic effect of suggested courses of action.

Senators Laid for duPont

Cordial as White House conferences have been, Lammot du Pont's experience with the Senate committee will keep away business men who could help a lot in telling Congress what's the matter with business. The committee went out to break him down, ignored subjects he claimed knowledge about, and spent lots of time trying to trip him on others on which he confessed ignorance. Even such near-conservatives as Sen. Byrnes, of South Carolina, joined the badgering. This merely proves that the name "du Pont" is bad medicine politically, and that Senators cannot resist playing a little politics.

Tax Outlook

The Senate will rewrite the House tax bill. So, actually, the fact that business men and their lawyers have no tax proposal to shoot at in the House committee hearings is not as vital as it otherwise might be. So far, the House sub-committee plan largely reflects Administration ideas. There is some revolt against them in the House itself, but much more in the Senate. For example, there is considerable doubt about the classification of business into different groups with different scales of tax rates—fear that even if the classification were desirable, it might lead to tying up the whole tax bill in a court struggle over allegations of unjust discrimination amounting to partial confiscation. Hence, there is a strong move to make just one "basket" of all rates, granting all corporations a certain "exemption", just as is done by the present law on individual incomes.

Hill Victory Jars Southerners

The "formula" that will reconcile conflicting factions and permit passage of wage-hour legislation has not been finally worked out, but there is no doubt that the will to pass some sort of bill is increasing. Many other elements contributed to the victory of Rep. Lister Hill over "Tom" Heflin in Alabama for ex-Sen. Black's seat, but the significance of the election in which the wage-hour bill was the paramount issue, jarred many Southerners who previously thought local politics made it necessary for them to oppose the measure. The South is not willing, however, to accept the 40-40 standard or a shift in enforcement to the Department of Labor, as proposed by the House labor committee, to appease the A.F.L. in its opposition to an administrative board *à la* NLRB. Madam Perkins is optimistic. She has already talked to at least one man with a view to making him administrator under her department.

Far Apart on Farm Bill

With Feb. 1 as Nature's deadline for crop control, House and Senate conferees on the farm bill are still far from reconciling two involved measures to produce a single compromise which in the end, it is feared, will be no easier to comprehend or to administer. The best illustration of the difficulties encountered is the fact that organized agriculture's numerous Washington representatives—and their employers—have abandoned their teamwork and are pulling in more different directions than ever before.

No Overhauling of Security Law

Only minor amendments to the Social Security Act stand a chance of getting action this session. The Advisory Council on Social Security will recommend next month that an expert commission, representative of employers, employees, and the public, be set up to study the law for two years, particularly the old-age reserve feature. The Council, of which Sen. Vandenberg is godfather, is not competent to take on such an intricate task, and the Social Security Board would infinitely prefer a study by experts to a Congressional investigation looking to revision of the law.

FTC Bill Passes

As a result of House action this week in approving the bill to expand Federal Trade Commission powers by giving it authority over all unfair or deceptive acts or practices (instead of just those in which unfair competition can be proved), the fight over which government agency will regulate food and drug advertising comes to a head. Odds strongly favor the FTC rather than the Food & Drug Administration, but the Senate, which passed the FTC bill last year, may object to the House changes.

Won't Desert Relief Rolls

Works Progress Administration's announcement that persons eligible for

unemployment insurance can't remain on relief rolls is only a gesture. As a policy decision, it clears WPA of possible criticism, but there is no practical means of enforcing it. Out-of-job workers getting $50 a month more or less will not voluntarily separate themselves from WPA rolls for the short-term pittance provided by unemployment compensation, and the majority would be back on relief inside of a few weeks anyhow.

Compensating Canada

With negotiation of the British trade agreement now under way, the State Department will shortly tackle the Canadian situation. Sec. Hull is grabbing the bull by the horns, entirely aware that the way the British agreement goes will make or break his reciprocal tariff policy. Farm leaders confidently predict that if he fails to crack the British market for farm products the jig is up. Coincident negotiation of a new agreement with Canada, whose produce enjoys preference in the British market, is significant for this reason: It's ring-around-the-rosy in which Hull takes the position that in return for concessions to Britain, that country and not the United States should compensate Canada for loss of its preferential position in the British market.

Will the Japanese Benefit?

Particularly concerning the concessions that this country is willing to make to Britain, opponents of Hull's policy are out to stir up trouble by flatly declaring that he can't give England a break without giving Japan a bigger break. They point out that the list of imports on which the State Department is willing to trade is not confined to items of which Britain is the principal supplier. In departing from this general rule to a discreet extent, the claim is made on behalf of the State Department that it is merely using its bargaining power to the best advantage on the theory that greater concessions are to be got from the secondary supplier than the principal supplier.

Postponing Independence

It looks as though the whole Philippine battle—the conflict between American producers who wish to eliminate Philippine competition and those who want Filipino products at the lowest possible costs—will be waged all over again. The President intends to ask Congress to extend the period of slowly rising import duties against the islands so as to spread the climb to economic independence over 14 more years, with maximum rates not taking effect until 1960 instead of 1946, as provided originally by the Tydings Act.

Clamping Down on TVA

Congressional impatience with TVA's internal ruckus is visibly increasing, found expression this week where it hurts worst—in the appropriation bill. Unless the Senate forces a reversal, TVA will not get funds this year to begin Gilbertsville Dam, the $... 000,000 structure that will dwarf all other valley projects. Failure to start this work on schedule will bottle up for an equal period the 9-ft. channel connection with the Ohio-Mississippi system. All of which is convincing even the most ardent supporters of TVA that an immediate show-down, not a hush-hush campaign, is the best strategy.

Puncturing Jackson Bubble

Southern conservatives have been worried over Bob Jackson's pretensions as heir-apparent to the White House. The worries were stimulated by the White House hint that Jackson was its candidate for governor of New York this fall, but they have been somewhat allayed by a shrewd political dopester from the big city. "Listen," said the authority, "Jackson is grand in a court room, but on the hustings—he just lacks political sex appeal. Jack Bennett (N. Y. State attorney general) is the boy for you to watch. He's got almost as much as La Guardia. However, even if Jackson were nominated I'll lay you any amount you want that the Republicans will win the governorship. So you needn't worry about Jackson."

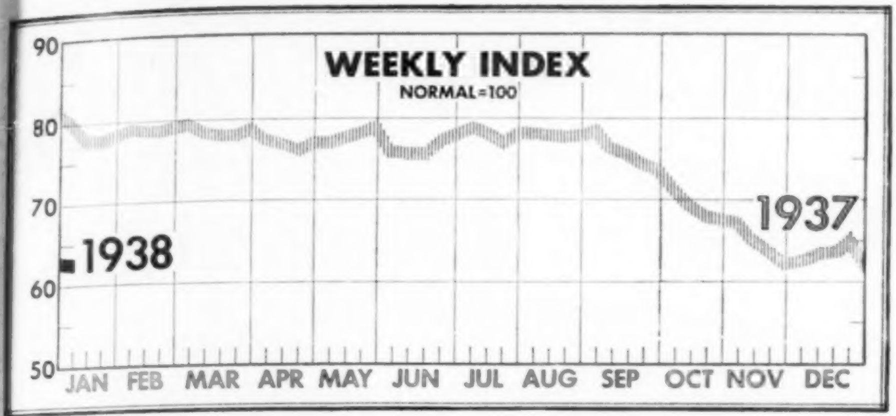
Cement Waits Its Turn

With Washington hearings drawing to a close, the Federal Trade Commission's investigation into the pricing policies of the cement industry will soon go on tour, during which the defense expects to get in its best licks. So far, it has been the government's show, with witness after witness from various federal agencies putting in the record examples of uniform bidding. Attorneys for the industry are reserving their main defense until the government's case is completed.

FTC Decides Auto Probe

As predicted, the attitude of the Federal Trade Commission will largely determine whether or not Congress launches an investigation of automobile manufacturer-dealer relationships. The Senate committee's report means nothing, was voted without even holding a public hearing. Far more significant is this week's action of the House sub-committee in re-opening hearings to learn what FTC has to say. Since no specific legislation has been proposed, the real issue is whether the alleged abuses can best be attacked through cease-and-desist orders.

BUSINESS WEEK'S INDEX OF BUSINESS ACTIVITY



The Figures

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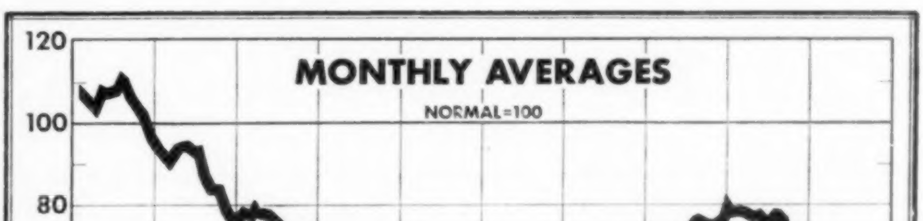
Preceding Week	†63.6
Month Ago	64.3
Year Ago	80.7
Average 1932–36	67.1

	Latest Week	*Preceding Week*	*Month Ago*	*Year Ago*	*Average 1932-36*
PRODUCTION					
★Steel Ingot Operation (% of capacity)	27.8	25.6	27.4	78.8	43.9
★Building Contracts (F. W. Dodge, 4-week daily average in thousands)	$8,263	$8,377	$8,605	$8,282	$7,112
Engineering Construction Awards (*Eng. News-Rec.*, 4-wk. daily av. in thousands)	$8,252	$7,939	$7,902	$8,055	$6,933
★Bituminous Coal (daily average, 1,000 tons)	1,189	†1,230	1,347	1,764	1,423
★Electric Power (million kw.-hr.)	2,140	†1,998	2,196	2,244	1,775
TRADE					
Total Carloadings (daily average, 1,000 cars)	88	97	104	107	95
★Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	55	61	67	68	59
★Check Payments (outside N. Y. City, millions)	$5,128	$4,297	$4,149	$5,309	$4,233
★Money in Circulation (Wednesday series, millions)	$6,510	$6,571	$6,591	$6,473	$5,735
PRICES (Average for the week)					
Wheat (No. 2, hard winter, Kansas City, bu.)	$.98	$.96	$.97	$1.41	$.97
Cotton (middling, New York, lb.)	8.64¢	8.41¢	8.24¢	13.05¢	10.98¢
Iron and Steel (*Steel*, composite, ton)	$38.93	$38.92	$38.88	$36.52	$32.34
Copper (electrolytic, Connecticut Valley basis, lb.)	10.604¢	10.150¢	10.250¢	12.208¢	8.700¢
Moody's Spot Commodity Price Index (Dec. 31, 1931=100)	151.8	148.9	148.9	209.1	149.1
FINANCE					
Bond Yields (Standard Statistics, average 45 bonds)	5.69%	†5.73%	5.53%	4.14%	4.92%
Call Loans, Renewal Rate, N. Y. Stock Exchange (daily average)	1.00%	1.00%	1.00%	1.00%	.95%
Prime Commercial Paper, 4-6 Months, N. Y. City (prevailing rate)	1.00%	1.00%	1.00%	.75%	1.05%
Business Failures (Dun and Bradstreet, number)	268	249	234	177	304
BANKING (Millions of dollars)					
Total Federal Reserve Credit Outstanding (Wednesday series)	2,603	2,602	2,612	2,464	2,450
Excess Reserves, all member banks (Wednesday series)	1,270	1,160	1,050	2,010	1,645
Total Loans and Investments, reporting member banks	21,249	21,402	21,489	22,853	19,892
Commercial and Agricultural Loans, reporting member banks‡	4,517	4,601	4,628	§	§
Security Loans, reporting member banks‡	1,468	1,529	1,600	§	§
U. S. Gov't and Gov't Guaranteed Obligations Held, reporting member banks	9,181	9,134	9,115	10,543	§
Other Securities Held, reporting member banks	2,842	2,881	2,865	3,225	§

★Factor in *Business Week* Index. *Preliminary, Week Ended January 8. †Revised. ‡New Series. §Not Available.

These monthly averages are merely simple averages of each month's weekly figures of *Business Week's* index of business activity presented in the chart at the top of the page. They enable readers to get a general view of the trend of business since 1929.



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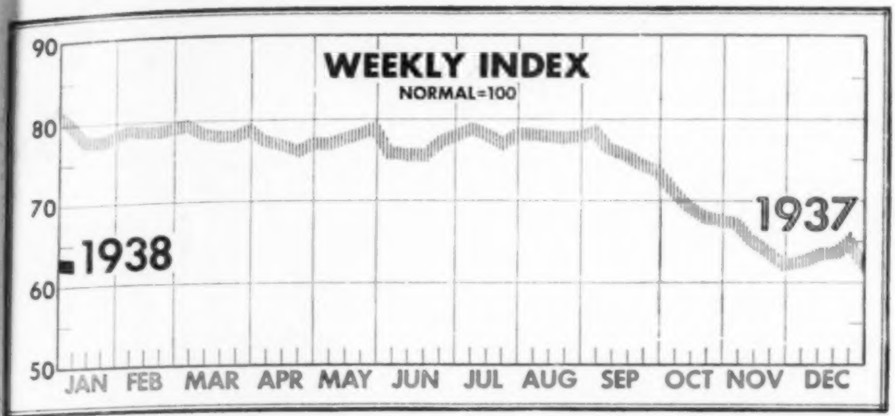
BUSINESS WEEK'S INDEX OF BUSINESS ACTIVITY



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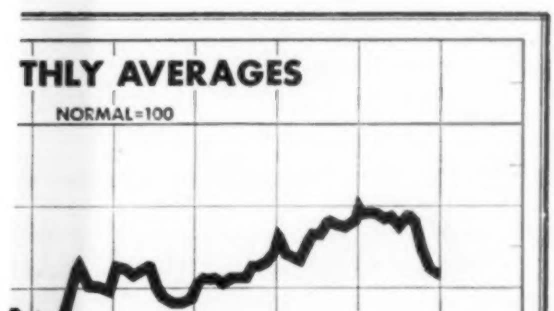

THE BUSINESS OUTLOOK

TO SAY that the recession is over and that recovery has recommenced would be overemphasizing advances in stock and commodity prices, an improvement in steel operations, and a step-up in automobile assemblies, and would be underestimating the cumulative possibilities of an industrial drag-down resulting from unemployment, layoffs, and wage and salary reductions, which have been on the increase. Nevertheless, the business news for the first time in several months has been mixed. Plus signs, once again, are appearing in isolated industries. Business reports are not all for the worse. And the implications are that business, if it has not made bottom, is so close to scraping bottom, that for all practical purposes it is on the way up.

Commodities and Stocks

Readjustments in the price level of commodities and stocks (see chart, page 13), along with the decline in business activity, have come so fast as to presage a fairly strong advance, when and as business establishes a firm base. The markup in stock prices early this week indicates that speculators are counting on a fairly broad upturn. But there are still spots for the wringer. Commercial failures are rising, bank debt is being pulled down, retail sales volume (even allowing for price drops) is likely to go a bit lower, and there are still overhanging a few inventory problems here and there.

Copper, Lead, Zinc

The advance in copper, on the strength of European buying (Soviet Russia particularly has been bidding for the red metal), is healthful. Production has been cut, and though the December domestic statistics do not make gladsome reading, any slight rise in demand will produce firmness in the price structure. Copper is about a cent higher than its low, and that is a significant pointer to the commodity price trend. Sympathetic firmness in lead and zinc are natural concomitants.

Rise in Steel Operations

Steel operations, at 27.8% of capacity, were nothing to brag about this week. But that was the best pace in more than a month, and it is hardly a question any more of how low the steel industry will go, but how far it can advance. Steel companies, generally, won't reach the break-even point until activity is up to 55%. And that rate seems a long way off. True, shipments are running ahead of output, and inventories of both steel companies and steel consumers are low. But there is no indication yet that orders will whip up operations to the profit level for several months to come.

Steel Price Problem

The steel industry is up against a price problem. Wages and costs of raw materials have risen, and prices have not come down in line with prices generally. Big buyers, particularly automobile companies, have been withholding orders, waiting for a break. The government's attention-calling to "monopolistic price agreements" has not helped the situation. Conclusion: steel prices are brittle. If demand steps up, they'll stay where they are. But if buyers can hold off long enough, then the major companies will be forced to make concessions to entice new ordering.

Industry and Government

President Roosevelt's *tête-à-tête* with leading industrialists, though unlikely to produce any vital plan for recovery, will go far toward humanizing relations between Washington and big business, and thus will have a good effect. And the offshoot, quite possibly, will be a statement by the President on the price level. Back in April, Mr. Roosevelt deplored high prices, and prices broke. Now, a statement by the President that prices are too low might have a stimulating effect. Undoubtedly, in the course of the discussions of the business situation, the President learned that business men are not buying because they cannot afford to take additional inventory losses.

Rush for Cotton Goods

In cotton goods, the effect of depleted inventories became pronounced this week. The biggest buying wave since early last year was experienced in Eastern markets. Gray goods amounting to 40,000,000,000 yd. was purchased on Monday and Tuesday. It is a natural sequence to the hand-to-mouth buying of December.

Prices Help Consumer

Consumers are in a buyers' market. Retail prices have been steadily going down. The Fairchild index of department store prices fell for the fourth consecutive month in December; and on Jan. 3, at 93.2, they were at the lowest level since February. Which means that the consumer dollar will stretch farther. The National Industrial Conference Board standard-of-living index for December was down to 88.6 in December from 89 in November. Food prices weighed heavily in the decline.

Retail Sales Volume

It is well to bear in mind the general decline in prices in judging retail sales. Though dollar volume is falling off, retailers are wrapping up more goods per dollar. Thus unit volume is not off as much as sales indexes seem to signify. For the full year 1937, sales were 5.4% above 1936, according to the National Retail Dry Goods Association. First nine months' gain offset the fourth quarter slump. Stores, incidentally, are now keeping a strict rein on credit extension.

Watch the French Franc

Worth watching, as a clue to what goes on in Europe, is the course of the French franc. Again it's been having bad sinking spells, in spite of hard work by the French stabilization fund. Again the cause is labor uncertainties. The Chautemps-Bonnet government has had fair success in strengthening the nation's budgetary outlook, but has not imparted aggressive confidence to business. Smaller industrialists are apprehensive over wage and hour regulations which workers are demanding. Instability in France has a depressing effect on European business in particular, and international affairs—both political and economic—in general.

Real Estate Firm

Though rents are slipping a little, the National Association of Real Estate Boards keeps a stiff upper lip, reporting that real estate prices all over the country are holding up fairly well. Deals are fewer, but declines have been noted in only 10% of the cities covered. Incidentally, the smaller the city, the firmer the price.

Seeking Price Assurance

Strength in all commodities, which has been general since the beginning of the year, is a sign which all business men have been waiting for. They have been seeking assurance that the price level has made bottom. The danger—and this goes for stock prices as well—is that the advance may go too far and too fast. A relapse, just when business is getting a grip on itself, would be very disconcerting.

NEW TIMES REQUIRE NEW METHODS IN YOUR BUSINESS, TOO.

The line method of mass production of shoes started with the first cobbler who set his helpers at work—each making a part of a shoe instead of the whole. Changes, not so simple, but equally revolutionary, are continually taking place in all industry today. No industry or firm is safe from changes, and few managements have the time or facilities to keep abreast of them all. * Successful enterprises have found impartial studies and analyses made by SANDERSON & PORTER to be helpful in charting their business course. The firm is a partnership established more than 40 years. Its organization includes individuals of widely varied experience, whose composite advice and service are available to clients. Arrangements to have a SANDERSON & PORTER representative call to discuss your problems may be made, without obligation, through any of the firm's offices.

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BUSINESS WEEK

JANUARY 15, 1938

What the "Up" Signs Mean

Though stock market may be moving faster than cautious buyers are willing to go, readjustments already made suggest business is "getting it over."

BUSINESS this week found itself on the springboard of recovery, but showed justified doubts that the springboard would stand a good, firm spring.

The stock market was ebullient. In the first seven trading days of January, shares jumped 11%, as if to sing: "Happy Days Are Here Again"; commodity prices lunged lustily to higher levels, with copper in the van.

But it was all very sudden, and business men were taking nothing for granted. They were still awaiting a longer period of readjustment—sustained stability around current levels.

In other words, though the stock market may be waving a green flag, business managers are still cautious. Retail sales are below a year ago by about 5%. Unemployment is large and growing larger. Layoffs are still to come and so are wage and salary cuts. Already General Motors has reduced its payroll substantially. Several auto accessory firms have reduced wage rates; some, in response to demands from workers, have gone back to a piece-work basis. And in December, Chrysler and Ford assemblies reached a vanishing point.

Moreover, year-end corporate adjustments are still too fresh in the business mind for any such "sunshine" propaganda as marked the early months of 1930. Most corporations took large write-offs in getting their inventories back in line with market prices. Result: fourth quarter earnings will have a pale and sickly look, and purchasing agents will not be over-anxious to beat the gun in a new buying race. April 2, the day President Roosevelt cracked down on high prices and cracked them, is still a vivid memory.

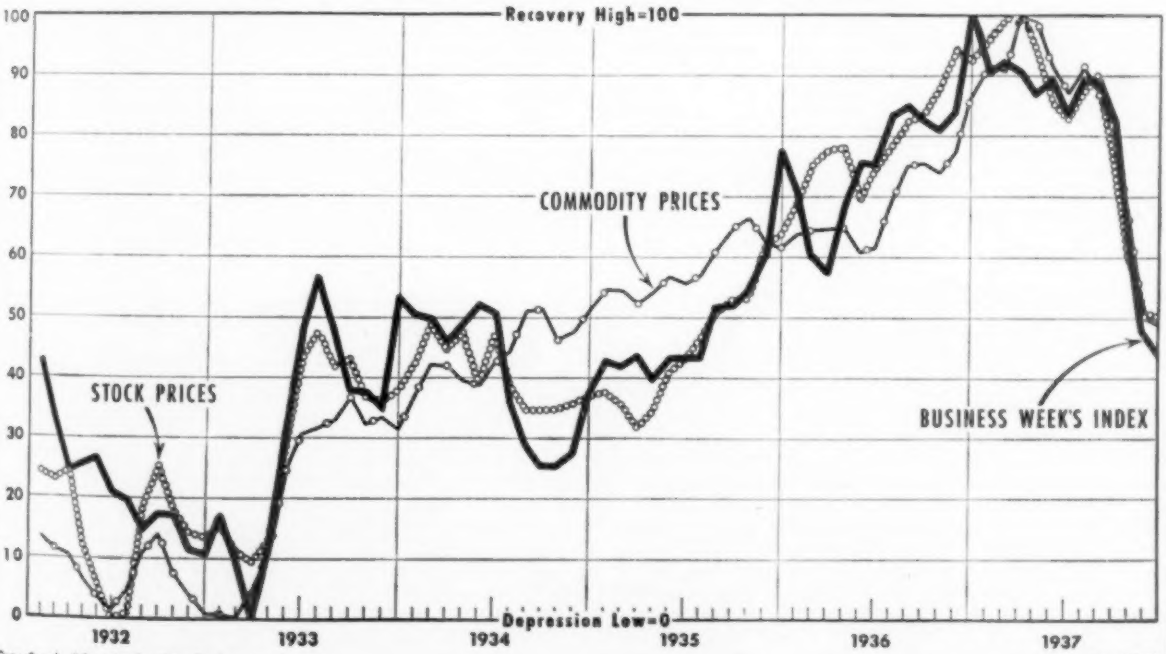
So, inventories are still in the process of being whittled down. Commercial and agricultural loans, largely for the purpose of carrying inventories, have dropped $350,000,000 in less than three months at reporting member banks in 101 cities. This means that business men are not only getting down to bare shelves, but also that they are taking no chances on getting overloaded with debt.

The general theory seems to be that business either made its low in December or will strike bottom early this year. Steel operations seem to say as much. U. S. Steel Corp. has been shipping more steel than it has been making. In other words, it's been pulling down its inventories, and sooner or later will have to expand production to keep up with deliveries.

For the first time since the sharp reduction in the business pace in Septem-

READJUSTMENT

Stock Prices, Commodities, and Business Activity Have Surrendered About 50% of Their Recovery Gains



Data Standard Statistics Co., Moody's Investors Service

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HALF of the recovery gains in business, stocks, and commodities have vanished since Dec. 31, 1936. *Business Week's* business index, at the end of 1937, held on to only 44.7% of its advance from 1933. Sensitive commodity prices did better, retaining 49.4% of their recovery from the low of 1932 to the high of 1937. Common stocks did best, clinging to 50.1% of their rise. The drops in all three indicators began to gather force late last year, and the parallelism in their movements implies that readjustment has been swift and uniform. Further, since Jan. 1, both commodity prices and stock prices have advanced, and this may augur that industrial operations have made bottom.

Looking Ahead

1937 earning power is cheap. As the result of the sharp readjustment in stock prices, $12.33 this week would buy $1 of last year's earnings of leading shares (if last year's earnings mean anything). A year ago, it would have taken $22.14 to purchase $1 of 1936 earnings. Then, stock quotations reflected the bright outlook for 1937. Today, because 1938 is pretty much of a question mark, stocks are selling at a low ratio to 1937 earnings.

Moral: the stock market never looks back, as the following price-earnings ratios indicate:

Group (Number of Companies in Parentheses)	*Price-Earnings Ratio* 1/10/38	1/11/37
Industrials (140)	11.82	22.34
Railroads (9)	19.57	19.76
Utilities (11)	11.53	21.47
Total (160)	12.33	22.14

ber, good news is poking up its head. Chrysler and Ford are stepping up production, are calling back workers. Hudson has entered the low-priced automobile field. Sears, Roebuck has absorbed its inventory licking and has reduced prices all along the line to stimulate sales. Shoe and hosiery manufacturers have reduced prices. Department stores all over the country have been advertising first-of-the-year price cuts.

Though there are sporadic strikes throughout the country, labor generally has quieted down. That, of necessity. When the demand for workers is not insistent, the odds of winning strikes are against the unions. And that means that one incentive for over-buying—labor trouble—has been eliminated; which further means that the advances in commodity prices generally will be slower and surer than they were in the fall of 1936 and the spring of 1937.

Caution in Business

Typical of the caution dominating business today is the policy adopted by R. H. Macy & Co., New York department store. Whereas in 1937, Macy's considered it thrifty to budget six months ahead, to anticipate rising prices, today the company has adopted a three-months' plan. Reason: the outlook for 1938 is still to obscure to warrant "stepping out."

The recent advances in cotton, copper and other raw materials prices have been reassuring. These jumps indicate either that prices have made bottom, or are in process of making bottom. Production has been curtailed in steel, in copper, in lead, and European buying of non-ferrous metals has tipped up the price level. Copper, particularly, has been buoyant, up ⅞¢ from its low. But business men still want a period of stability as insurance. In short, they are not trying to buy at the bottom, and they don't expect a rapid recovery from current levels.

The rise in stock prices, though psychologically pleasant, also has not been sufficiently protracted to generate confidence. Furthermore, though shares are selling at low levels relative to 1937 earnings (see accompanying table), they do not appear unreasonably low-priced relative to prospective 1938 earnings. At this time last year, a small group of leading stocks sold at 18.86 times earnings actually realized in 1937. Right now, based on prospective 1938 earnings for those same shares, stocks are selling at 18.69 times earnings.

Of course, at this early date, any estimates of 1938 earnings are subject to a fairly wide margin of error. But what the "bogey" does indicate is that the market is not particularly pessimistic on business, and that it is willing to pay about the same today for $1 of earning power as it actually paid last year, when the outlook for business expansion was much brighter than it is now.

Deny Wage-Bill Deal

Southern governors approve principle of bill, but say they didn't make a trade.

WASHINGTON (*Business Week Bureau*)—Southern governors who lunched at the White House last week indignantly deny that they offered to swap the President a wage-hour bill for lower freight rates into Northern markets or that this was suggested by Roosevelt. Under the leadership of Lawrence W. (Chip) Robert, Jr., former assistant secretary of the treasury, the Southeastern Governor's Conference is aggressively promoting industrial expansion. It filed a complaint with the Interstate Commerce Commission several months ago seeking adjustment of freight rates more favorable to the South. Following the White House conference, it adopted a resolution endorsing the principle of a "floor for wages and a ceiling for hours." These subjects "briefly touched" at the White House evidently produced good feeling without embarrassing commitments on either side.

Neither the President nor lesser politicians can call the ICC's hand. The case entitled *State of Alabama et al. vs. New York Central et al.* is coming up for hearing Mar. 23 in Birmingham, but renewed fighting over wage-hour legislation will be history long before the commission hands down its decision. The governors' complaint is aimed at commodity rates that apply to bulk products of low value.

Class Rate Case

A similar case involving class rates which apply to higher grades of freight has been hanging fire for a year. The inquiry was ordered by the ICC following widespread agitation, but the instigators got cold feet when they discovered that a likely result would be to reduce rates from north to south rather than from south to north. Southern shippers who know their freight rates realize that they are getting a pretty good deal on northbound freight moving on the so-called K-2 scale.

The consequence is that the class rate investigation, though still on the docket, has been practically abandoned, as it was ordered by the commission with the understanding that the Southern state commissions and shippers would assume the burden of proof. At their request, hearings have been deferred indefinitely while the commodity rate case is pushed ahead. Southern roads will fight back hard, pointing out that freight revenue per net ton-mile in the Southern district dropped another cent in 1936 to 83¢, as compared to $1.0[illegible] in Eastern and Western districts.

Underwood & Underwood

GENTLEMEN FROM THE SOUTH—Delegates to the Southeastern Governors' Conference shown leaving the White House. Left to right: Gov. E. D. Reeves, Ga.; Gov. Clyde R. Hoey, N. C.; Gov. Bibb Graves, Ala.; former Governor O. Max Gardner, N. C.; Gov. Gordon Browning, Tenn.; L. W. Roberts, Jr., engineering adviser to the group; Gov. Fred F. Cone, Fla.; Gov. Olin D. Johnston, S. C.; and Gov. R. W. Leche, La.

Acme

General Robert Wood, president of Sears, Roebuck and Co., who came to Washington to testify before the Senate unemployment committee, boards an airplane with Mrs. Wood for the trip back to Chicago.

Harris & Ewing

Entering the White House for their conference with the President are Colby Chester, chairman of the National Association of Manufacturers; Ernest T. Weir, president of National Steel; Lewis Brown, president of Johns-Manville; Alfred P. Sloan, General Motors board chairman; and M. W. Clement, president of the Pennsylvania R.R.

Harris & Ewing

Edsel Ford obligingly watches the birdie for a news photographer. His reason for visiting Washington was a bit different from that of the others —to testify before the Senate rail investigation.

The March on Washington

Not since the early honeymoon period of the Blue Eagle has there been such a trek of business men to Washington as in the last few days. *(See Washington Bulletin.)* Some have testified for the Senate committee investigating unemployment. Others have made less formal visits to see the President. Biggest of these conferences has been announced for next week when the President will meet with 50 members of Secretary of Commerce Roper's Business Advisory Council. Business in general wonders whether these meetings portend a real willingness to get the other fellow's point of view, or are merely window-dressing for recovery.

International

William Knudsen, president of General Motors, makes a point before the Senate committee.

Harris & Ewing

Russell Fisher, president of American Cotton Manufacturers; Robert E. Henry, president of Southern Textile Manufacturers; and Claudius T. Murchison, president of the Textile Institute, testified for the jobless inquiry.

Harris & Ewing

Lammot duPont, president of E. I. duPont de Nemours & Co., was one of the early witnesses this week before the Senate unemployment committee. He asked an end to the "fog of uncertainty" over taxes and control of business.

Trade Picture—Britain and United States

Each year the United States sells a great deal more to the United Kingdom than it buys there. But for the whole British Empire, the picture is different. Our huge purchases of rubber from Malaya alone are enough to change the situation radically.

Here is the complete picture (except for gold shipments) of all trade between the United States and the British Empire in 1936, the last year for which a complete breakdown of data is available.

Note: Plus signs indicate a net balance favoring the U.S.; minus signs, a net balance in the Empire's favor. Figures are in millions of dollars (000,000 omitted).

	United Kingdom	*Crown Colonies*	*Canada and Newfoundland*	*Other Dominions and India*	*Total British Empire*
Trade in "Visible" Merchandise	+240	—185	+10	+67	+132
Freight and Shipping	—20	...	—8	...	—28
Tourists	—12	—30	—147	—2	—191
Immigrants' Remittances	...	...	...	—11	—11
Insurance	—28	...	+1	...	—27
Interest and Dividends	—32	...	+168	...	+136
Total "Invisible" Trade	—92	—30	+14	—13	—121
Total Trade	+148	—215	+24	+54	+11

U.S.-British Pact Up for Action

Hull reveals the thousand items on which we're ready to bargain. Protests must be filed by Feb. 19. Farmers will benefit most from British concessions.

Two dates in the near future have suddenly become important to the thousands of Americans who in any good year do more than $1,000,000,000 in business with Great Britain and the colonies whose trade destinies are dictated from London.

The dates are Feb. 19, which is the deadline for the filing in Washington of protests against the tentative list of items on which concessions may be made to the British in the new trade agreement now under negotiation, and Mar. 14, when formal hearings on the agreement will begin in Washington. Negotiations are expected to be completed by early summer.

From Needles to Engines

Business knows now the thousand items on which Washington is ready to bargain with London. They range from surgical needles to internal combustion engines, and from bath salts to biscuits. On some of them, Washington will offer to cut present import duties in return for comparable concessions for our goods in British markets; on others, Washington will agree only to promise not to increase existing rates. It is vitally important to the British, for instance, to keep rubber and tin on our free list, for British colonies are in both cases huge suppliers.

Britain has published no comparable list of the items on which it is prepared to make import concessions to United States goods, and is not likely to do so, for it is not customary British procedure. But the small group of expert trade negotiators which will reach Washington from London before the end of the month will have such a list, and our experts in Washington know that it contains principally farm and food products, for they are what Britain buys in largest quantity abroad and what we want most to sell the British. Washington has been able to do most for the manufacturer in the bulk of the agreements already negotiated. The trade agreement authorities themselves admit that with the British pact the farmer's turn has come.

It is no coincidence, in fact, that important backers of the reciprocal trade program got together recently in Des Moines and organized the Economic Policy Committee "to promote discussion throughout the country of the bearing of international economic relationships upon our domestic prosperity and of the vital connection between such relations and the preservation of the peace of the world." Intimates say simply that the committee is determined to counteract the attacks of Sen. Capper of Kansas on the Hull program.

Most Important Agreement

The pending agreement with Great Britain is without question the most important in the entire reciprocal trade program. The United Kingdom market usually vies with Canada for first place among our foreign customers, but the British, when they come to Washington, will be negotiating not only for themselves but also for all the empire except India and the self-governing dominions.

This means that London will be negotiating for Malaya, where we buy huge quantities of tin and rubber; for the Gold Coast, where we buy African manganese and cocoa; for Ceylon, where we buy graphite and tea; and for Bermuda and the Bahamas, where we spend our holidays (and our travel dollars).

In every one of the agreements which we have negotiated, there have been some few items on which United States growers or manufacturers fought vigorously every effort to cut rates. The fight was perhaps most bitter in the Czechoslovakian negotiations, and the final terms of the agreement have not yet been announced. Fear there was that there would be a flood not only of certain Czech goods, but of cheap Japanese lines which would automatically benefit when the pact was generalized as all the reciprocal agreements are.

In the case of the British pact, authorities who scanned the lists released this week guessed that the battle would range longest and most bitterly over

Wide World

TITULAR HEADS of the Anglo-American trade treaty negotiations will be Sir Ronald Lindsay (left), British ambassador to the U.S., and Joseph P. Kennedy, our newly nominated ambassador to the Court of St. James.

possible duty concessions to the British on imports of wool fabrics and carpets, cotton goods (even if limited to the finer, more expensive materials), rayon hose and apparel, chinaware and cutlery, on glass and glassware, on chemicals, soap, and linens. Protests are expected on any duty concessions on machinery imports, but machinery exports are so important that they are expected to counter-balance this opposition. On most whisky items, duties have already been cut the maximum 50% by Washington, but the 50¢ a gal. duty on ales, porter, stout, and beer might be reduced.

Any cuts in the duties on steel imports will be protested strongly by the industry, and the arguments are likely to have special weight in view of current low operating activity. Fear of feeding fuel to the Administration's "monopoly" accusations may temper the protest.

Duties on several kinds of tiles, on the other hand, have been subject to consumers' protest here for some time and almost certainly will come up for a fresh airing this spring. And Washington adds that there are always unexpected contests over proposed changes on comparatively minor items.

U. S. Concession Policies

As has been the case with the other countries with which Washington has negotiated agreements, concessions are generally offered on items which have been supplied mainly by the country with which Washington is bargaining. In the present case, Britain or some part of the Empire figures as an important supplier in practically every case. But it is significant that certain other countries are bound to benefit quite extensively when concessions are extended to the rest of the world. Germany would be one of the most important of these secondary beneficiaries in the present case, for she is an important or even the leading supplier of a number of the items. But Germany—and Australia—are on our tariff blacklists, so no concessions are extended to them until existing problems are cleared. Under these circumstances, any concessions to Britain would be doubly valuable because they will not be extended to the Reich, a major competitor for our business.

Other nations which will benefit are France, Sweden, the Netherlands, Belgium, Switzerland, Mexico, Denmark, Japan, and Czechoslovakia.

Invest in Housing

Life insurance companies expect to put up large sums when New York alters law.

METROPOLITAN LIFE INSURANCE CO. has earmarked $100,000,000 for construction of low-rental housing, and other substantial investments of life insurance money in similar projects are contemplated. This was the situation this week as the New York legislature received a bill which would enable the life insurance companies so to invest.

The bill recognizes the need for housing to meet the needs of small- and moderate-income families (already emphasized by Gov. Lehman in his annual message). It sets forth that the situation is of emergency character, and hence says that construction by life insurance companies shall not be authorized beyond 1943. It limits life insurance investments of this character to 10% of admitted assets. At present the bill would confine life companies to construction within the bounds of the state, but an amendment is under consideration which would allow New York companies to build multiple family dwellings in any city of 300,000 population within any states in which the companies are qualified to do business.

Low-rental Project's Record

This bill is very similar to one which became law in 1922. Under the earlier enactment Metropolitan Life Insurance gained its first experience in the field. It built, between 1923 and 1925, the largest single low-rental housing project ever undertaken in the United States. In its early years this project in Woodside, Long Island, was fully occupied and returned from 8% to 10% on the investment. During the depression, operating expenses were cleared; in the last three years the company has made about 4% to 5½%.

New York's superintendent of insurance, Louis H. Pink, gives the bill his blessing, declaring that the housing shortage in New York City is most acute within the range of $8 to $15 a room monthly rental. Within those boundaries he is convinced that there is a minimum of risk for life insurance company construction and management, but he doesn't approve of investment in higher or lower rental classifications.

How Much Will Be Invested?

How much insurance money will be made available is a moot point right now—rosiest estimates run up to two billions. Close observers, however, think that's far too high. For example, all the life companies qualified in New York, if they were to put a full 10% of their assets into such projects, could make up a fund which would just about hit $2,000,000,000. There is little disposition to think that all will go the limit, even though the paucity of lucrative investments is admitted.

Record Breakers of 1937

Despite the slump in business in the last quarter of 1937, these 16 broad industrial classifications reached a new all-time high for the year. At the same time, another group of industries came within shooting distance of establishing all-time records. Among these are such important divisions as steel and pig iron production; steel exports; ore shipments on the Great Lakes; automobile, shoe, kraft paper, window glass, rayon and cotton textile output; radio set sales; tin consumption; and oil well drilling.

Air Conditioning

Aviation
- Air Express Poundage
- Air Mail Poundage
- Exports of Planes, Engines, Accessories
- Passengers Carried
- Plane, Engine Production

Bus Transportation
- Bus Installations
- Passengers Carried
- Mileage

Chemicals
- Alkali Output and Sales
- Carbon Black Output
- Chlorine Output and Sales
- Plastics Output and Sales
- Potash Output and Sales
- Sulphur Sales (domestic) and Shipments
- Sulphuric Acid Output and Sales
- Synthetic Methanol Output and Sales
- Titanium Oxide Output and Sales

Cigarette Production

Coal Stoker Sales

Diesel Engine Sales—Horsepower

Electric Appliances
- Incand[illegible] Lamps—Units and Value
- Ironin[illegible]—Value
- Range[illegible]nd Value
- Refrig[illegible]its and Value
- Vacuum [illegible]aners—Value

Electric Power Output

Gas
- Natural Gas Production
- Range Sales

Glass
- Containers
- Plate Glass

Metals—Non-ferrous
- Aluminum Consumption
- Molybdenum Output
- Nickel Imports
- Zinc Die Castings

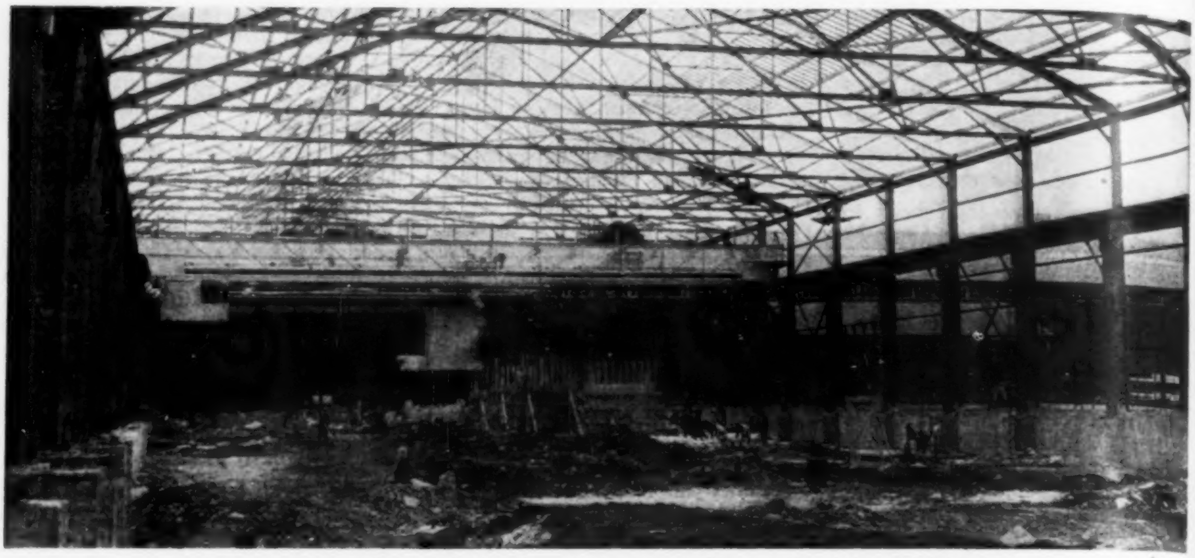
Paper
- Newsprint Consumption—tons
- Paperboard—tons

Petroleum
- Crude Oil Exports
- Crude Oil Output
- Gas and Fuel Oil Output
- Gasoline Consumption
- Kerosene Production
- Lubricating Oil Production

Radio Broadcasting

Steel
- Pig Iron Exports
- Sheet and Strip Steel Output
- Scrap Exports
- Stainless Steel
- Tin Container Production
- Tin Plate Output

Business Week



Dramatizing the need for industrial housing is the new Irvin works of Carnegie-Illinois Steel Co.—a plant that will employ 4,000 men but is being built in the naked hills near Pittsburgh.

Industrial Housing Wanted

Executives say, "no more company towns," so demand for workers' homes, created by new plant construction, turns to private builders and government.

INDUSTRY is definitely shying away from the "company town". Nobody loves a landlord and in aggravated cases (as during strikes) where the landlord is the employer, there is apt to remain a smouldering antipathy. Labor hates the company town as a form of paternalism. Usually these villages are forced by necessity and the owning companies will give them up without regret since their operation produces more grief than profit.

Recent new-plant construction and relocation have made industrial housing the most insistent need in the entire home-building field where government figures place the shortage at 5,000,000 units. Reluctance of the companies to sink their capital and risk their labor-relations by building homes for workers at new locations opens large opportunities for—someone.

Mass Needs Create Opening

The federal government is set to aid financing of such projects through Federal Housing Administration guarantees of loans. While these have been employed in many instances, most of the projects have been comparatively small. The mass needs of huge new plants, often situated far from population centers, and of entire industrial communities where shortages are acute, create an opening for some new form of building operator.

There are suggestions for huge building companies which would be powerful enough to handle finance, architecture and engineering, construction, sales. Perhaps they would move from one big job to another. Attempts are being made to interest the great philanthropic families and foundations. Overtures also include private accumulations of capital since limited-income projects, while removing the possibility of high profits, do assure the promised return.

Steel Workers' Problem

The entire situation is dramatized by the new Irvin plant of Carnegie-Illinois steel a few miles up the Monongahela River from Pittsburgh. Its cost is $60,000,000 and it is expected to start operation in May. Four thousand men will be employed.

Four thousand workers mean a total population of almost 17,000 dependent on this plant, enough for a fair sized city. But the Irvin plant is going up in the naked hills. There are no provisions for housing workers. Big Steel, parent of Carnegie-Illinois, says, "Company towns are out." It is part of a new policy on labor and public relations.

A committee of company officials is studying the housing problem but the plant's opening date is almost upon them. Workers will have to live somewhere else and drive to the plant.

Carnegie-Illinois has another plant at Clairton, near Irvin. But Clairton already has 3,519 families and only 3,133 housing units. From any angle, Irvin appears to be a natural for a big-scale housing development. Minimum expenditures for a community this size would be about $10,000,000. It could be invested here with small risk.

First, the Irvin plant is to be the last word in economical production. Therefore its operations will continue even when the company has to shut down higher-cost units. Seven per cent of the workers will be common laborers paid $5 a day. The other 93% will be highly skilled men with high wage rates.

The location was picked with a view to a possible townsite. The country is open and rolling. U. S. Steel owns 600 acres but any additional amount is available. Here is a beautiful set-up for progressive experiment, especially for new types of houses using steel parts. For all its promise, the size of the undertaking apparently frightens off bidders. Offers to erect a few hundred homes have been made by private interests but so far no deal has been closed.

Pittsburgh Housing Shortage

The Pittsburgh district offers little hope since its housing shortage is already acute. Workers with steady jobs have been driven for shelter to trailers, houseboats, even to vacant office buildings. About 30,000 Pittsburgh families are said to be without adequate shelter. Demolitions (to save taxes) have left 1,000 fewer houses in the city than were available in 1934. McKeesport, fifteen miles distant, is also in a bad way. Dwellings wrecked for a bridge created such a house famine that the mayor appointed a committee to aid the evicted in finding shelter.

As in the case of the Irvin mill, General Motors' diesel plant at La Grange, Ill., was set down in the great open spaces where its planners had a free hand but where housing just wasn't

It was built in 1935, was recently enlarged. This plant is going strong. Estimates of its housing needs are put at 300 units. G.M. wants to do everything possible to help but, like Big Steel, is too smart to stick its neck out with a company town.

The La Grange project probably will be worked out with private organizations. In Pontiac, Mich., home of Pontiac (G.M.) cars and of G.M. trucks, 100 low-cost houses will be sponsored by De Mass, a local operator. Other motor manufacturers are taking big bites at the housing shortage.

Ford Plans Low-Cost Houses

Ford plans the erection of 4,000 low-cost houses between his Rouge plant and Dearborn laboratories. Technically, the Ford company has nothing to do with the operation. It will be handled by the Ford Foundation, the non-profit organization which runs the Ford museum, Greenfield Village, etc. Houses will cost under $2,500. Ford originality can be counted on to produce new and perhaps startling construction economies.

Chrysler has in the works plans for 300 houses at Marysville, Mich. They probably will be carried out by a new corporation under the direction of Harold Wills, former head of Wills-St. Clair, now in Chrysler's engineering department.

Detroit generally has felt the squeeze in housing. Rents skyrocketed during the past 18 months. Plans of independent builders are under way for erecting about 2,500 homes for workers in lots of from five to 300. The Greater Detroit Building Co.'s program calls for two houses per day this year. "Down river" industries in the Detroit district are also pinched. William Voisine, mayor of Ecorse, organized, with the aid of the local chamber of commerce, a privately-financed building project. It is building 125 Stran-Steel houses for rental to workers in "down river" industries including Great Lakes Steel, cement plants, etc.

The feverish construction of Kraft paper mills, the building of new chemical plants and other phases of industrialization in the South have created housing problems in various localities. Since many of these are for people from population centers, the demand for homes is more insistent.

There is little new building in the South's textile towns due largely to the present stagnation in the cotton-goods market. And Southern textile men are feeling that urge to get away from company towns. It would remove resentment against "paternalism" and would also allow an adjustment of wage scales that would look better in comparison with competing sections of the country.

$1 per Room per Month

The sentiment is growing despite the fact that building of these textile towns was forced on the mill owners and that some of them represent perhaps the best industrial housing for the money to be found in the entire country. At Greensboro, N. C., workers of the Cone mills rent attractive four-room homes for $1 per room per month. There are lawns and flowers in front, vegetable gardens in back. Rent includes water and sewage disposal. It formerly included lights but growing use of electrical equipment forced the addition of a small basic charge for electricity.

The Whitney (S. C.) Mfg. Co. last summer completed negotiations to make employees owners of all its houses. This is one of the first sales of complete villages in the South. If the arrangement works out other companies are expected to adopt it.

The Whitney village has 140 modern houses, cost $350,000. An average of $1,000 per house was the price set by the company. Employees will purchase by paying about double the old rent. This amounts to $1 per month for each $100 valuation. Thus a $1,000 house will be bought by 100 payments of $10 each month. The village is unincorporated; the mill will continue upkeep of streets, sewers, water, light lines, etc.

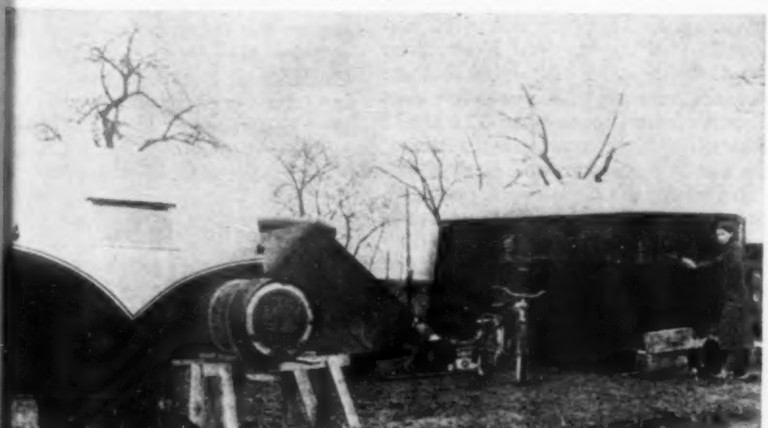
Industrial Housing on the Coast

On the Pacific Coast there has always been opposition to the company town except with the big lumber mills which were forced to build them. The Coast has a mild climate, and plentiful supplies of lumber for lighter types of homes. Moreover its highly-active real estate interests are on the look-out for new markets. Companies generally allow private enterprise to fill their building needs but cooperate to keep down workers' rents.

Pittsburg, Calif., (near San Francisco) has extensive plants of Columbia Steel, Johns-Manville, the big oil companies. Private capital is building low-cost houses here. The same is true in the industrial suburbs of Los Angeles.

Since the New Dealers have nominated the construction industry to drag the country out of the recession, company executives are looking to Washington for help in the housing of workers.

The Federal Housing Administration has sponsored two industrial housing projects by insuring the mort-



Newsphotos

Employees of the contractors who are building the Irvin works live in trailers or makeshift shacks. But when the plant is opened, steel workers may have to do the same or drive to work from distant homes.

INDUSTRIAL HOUSING projects around Detroit turn to this type of low-cost dwelling. It is a Stran-Steel cottage with 2 bedrooms, a living room, kitchen, bath and oil heat. Price, on a lot in Detroit, is $2,795.

gages, is working on others. Several of these last are in the South where new plants have been built. Best example of FHA work in this field is the development at Crossett, Ark., for employees of the Crossett Lumber Co. This company wanted to get away from the company town and wanted to be independent of the financing. A limited-dividend housing corporation was formed, a mortgage of $320,000 insured by FHA was issued in the form of bonds to three Arkansas banks. Construction included 199 single-family dwellings on individual plots.

Agreed to Guarantee Rents

A question arose here that other companies will encounter under similar circumstances: If the plant closes or moves away, what happens to the insured mortgages? At Crossett the company agreed to guarantee rents. FHA will expect some such assurance in other cases.

The late Allie S. Freed, former head of Paramount Motors Corp., was one of the students of housing who wasn't content to confine his researches to statistics. He and his associates proved the value of carefully-engineered low-cost construction in his Buckingham, Va., project. It was privately financed. Mr. Freed headed the Committee for Economic and Social Progress, New York, which has gone deeply into all phases of home building.

It has recommended the formation of 40 home building companies to cover the country. They would be strong enough to handle any job, would draw together government aid and private resources to give low income groups decent shelter.

Celotex Merger Tiff

Plan to buy control of Certain-teed Products Corp. is fought by underwriter.

THERE won't be any battle of proxies when Celotex Corp. stockholders gather in Chicago on Tuesday (Jan. 18) for the annual meeting and to vote on the proposed acquisition of approximately a 17% interest in the Certain-teed Products Corp. Best opinion in financial circles is that there will be enough votes to approve the Certain-teed deal. Yet the meeting will be surrounded by more than a little bitterness.

The bare details of the situation are that Celotex proposes to acquire from Phoenix Securities Corp. 109,360 shares of Certain-teed common and 9,496 preferred. Phoenix has four directors on the Celotex board of nine, but these did not vote on the plan—nor does Phoenix intend to vote the 57,000-odd shares it directly controls in Celotex at the meeting. Celotex would pay $569,760 cash for the Certain-teed preferred, and give 43,743 shares of its own common for the Certain-teed common. Distributors Group, Inc., (which underwrote $4,000,000 of Celotex debentures in the spring of 1937) has declared publicly that Celotex is paying too much for such an interest in Certain-teed.

Distributors Group's stand in the matter has attracted a good deal of attention. This underwriting concern has no stock interest in Celotex, and it hasn't sought to make a proxy battle out of the affair (Celotex probably doesn't need approval of stockholders to carry it through anyhow, but wanted such approval due to Phoenix Securities Corp.'s prominent place in the management).

Distributors Group is interested in the Certain-teed purchase from two standpoints. In the first place, it feels that the debentures' position will be weakened somewhat by disbursement of $569,760 of Celotex cash. In the second, it feels that warrants attached to the debentures (warrants entitle debenture holders to buy one share of Celotex at $50 for each $100 per amount held) will have their equity diluted inasmuch as Celotex is paying more than market prices for the Certain-teed shares.

Expansion Program Applauded

The Celotex expansion program—the company has bought two gypsum concerns recently and proposes to utilize some of Certain-teed's idle plant—is applauded by Distributors Group. But the underwriting house objects to an estimated premium of about half a million dollars over the market value of the Certain-teed shares. It feels that this "excessive premium" is being paid "by Celotex to Phoenix for advantages that should be obtainable or approximated without such payment."

Distributors Group also notes that "we think it fair to point out that the proposed transaction greatly fortifies the control by Phoenix of Celotex, and that this fact should be given weight in comparison with the control value assigned to the Certain-teed common proposed to be acquired. We fail to see why working arrangements between Celotex and Certain-teed, advantageous to both companies, might not be developed under the present ownership situation."

Phoenix, which helped Bror G. Dahlberg retain the top position in the Celotex management during 77-b reorganization from 1932 to 1935, took its present position in Certain-teed in 1936. Negotiation for sale of these Certain-teed holdings to Celotex have been going forward for many months. Phoenix expresses the opinion that Celotex could not elsewhere obtain so large a slice of Certain-teed, that the securities are being turned over for almost exactly what they cost Phoenix, and that Celotex would run the price up if it tried to get any such block of stock in the open market.

Difference in Viewpoint

Mr. Dahlberg, replying to a letter from Herbert R. Anderson of Distributors Group, says in part:

"I cannot resist the conclusion that the difference between your judgment and mine lies in the fact that you are thinking in terms of the stock market while I am thinking in terms of a productive industrial operation. . . . May be the time has come for some business man to say that a given day's stock market quotation does not necessarily represent the real value of an issue. . . . The buyer must decide whether the

lowest price at which he can buy represents a good buy. I did that in this instance after most careful consideration."

The Securities and Exchange Commission this week took a peek at the Certain-teed purchase when Wallace Groves, Phoenix chief, appeared before the SEC's investment trust probers. The SEC might find fault with the Celotex proxy letters or could block registration of the additional Celotex stock to be issued.

Looking at Real Estate

Observers expect considerable home-building in cities of 200,000 or less, and in suburbs of larger cities. "Blighted areas" are a problem.

CITIES, unlike coins, are not cut to a mold. Manhattan island, nerve center of New York, is long and narrow like a shingle. Chicago, shaped like a fan, with Michigan Avenue as the base, twirls north, west, and south. Detroit is built like half a wheel, with spokes radiating from the center, and Pittsburgh is set down on hills and in valleys. Geographical variations necessarily produce variations in real estate conditions. Yet there are fundamental resemblances as well. In these and in other cities there is a need of apartments and single family residences, much building was expected in 1937, and the "boom" (as it was called in some places) did not materialize.

Detroit, a one-industry city, has an apartment house occupancy ratio of 99%, the highest of any large city in the country. After it comes Cincinnati, with 98.4%; Pittsburgh, with 98%, and Chicago, with 97%. But Chicago has the largest combined apartment and single-family occupancy ratio of all cities surveyed by real estate boards—98.3%. Moreover, Chicago has the second highest adjusted tax rate in the country—second only to Boston's. Boston assesses property at its full value, and levies on the entire sum. Chicago assesses at full value, and then levies taxes on 37% of this. When put on a comparable basis, Boston's rate is \$3.80 per \$100 of valuation, and Chicago's \$3.52.

Office Building Ratios Lag

Occupancy ratios for office buildings the country over lag far behind ratios for apartments and residences. Of the larger and more important cities in which surveys have been made, Baltimore has the largest occupancy ratio—91%. Milwaukee has 89%, and Pittsburgh 86%. The bigger cities make poorer showings. In New York, where tenants have flocked to some new buildings, the ratio is 80%. Detroit and Chicago have ratios of 74 and 77%, respectively. St. Louis has 71%.

During 1938, in the suburbs of large cities and in cities of 200,000 and less, there may be considerable home building. Yet some real estate men say the desire for house-ownership is decreasing, largely because of taxation, the trouble and cost of keeping a house in repair, and the fact that a business executive or factory worker can't take a house with him when company transfers or loss of a job shift him from city to city. Other real estate men hotly contest this opinion. Yet there is ground for arguing that this country is increasingly becoming a nation of renters, and that, if business again curves upward, 1938 is likely to see considerable construction of apartment houses.

"Fair Return" Asked

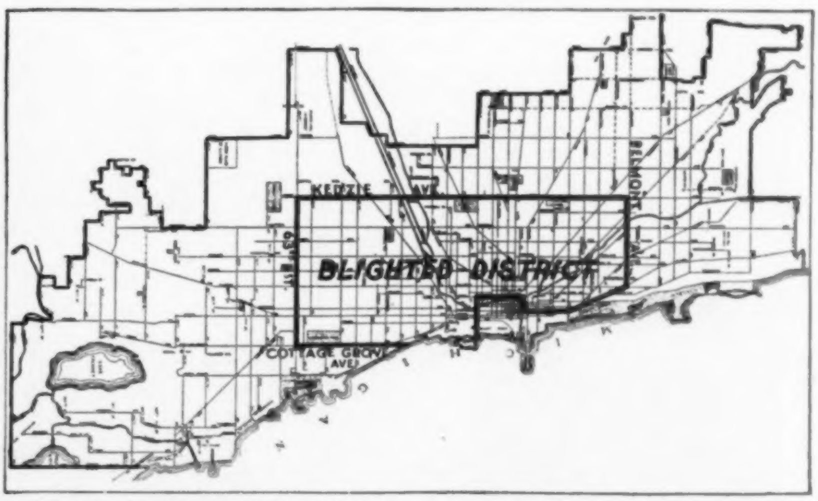
The reason such construction has not already taken place, say real estate men and bankers, is that rents are not yet high enough to provide a fair return, namely, 9%—a 6% net and 3% for depreciation. Where Chicago is concerned, rents are not high enough to warrant any building, except on the Gold Coast; and no large-scale apartment building is expected in that neighborhood soon, as it would weaken the rent structure.

Bankers say first major construction by private capital in Chicago proper is likely to come in the better communities occupied by middle and low income groups. These communities lie outside Chicago's "Blighted Area," extending from three to five miles from the Loop, excluding Michigan Avenue, the Gold Coast, and the Loop itself. Rents in the middle and low income communities outside the "Blighted Area" have not risen in proportion to rents on the Gold Coast. But in terms of dollars they do not need to rise nearly so much in order to give private capital a fair return on investment.

Sub-Standard Buildings Razed

Chicago's high occupancy ratio is due in a small degree to the razing of 4,500 sub-standard residence and apartment buildings in the "Blighted Area" by the Municipal Housing Council, with the consent of the owners, between June, 1934, and December, 1936. Bait used to get owners' consent was razing would take them back to ground taxes. However, between 8,000 and 9,000 sub-standard buildings remain in the area, and may be destroyed only by condemnation proceedings, on the ground that they are a menace to health or public safety or fire hazards. Private capital will not go into the "Blighted Area"—at least without government support. Yet the Wagner-Steagall Housing Act, authorizing the Federal Housing Administration to make a total of \$30,000,000 in single capital grants over the next three years, assures some improvement in Chicago's "Blighted Area" and in similar areas in other cities.

Chicago got three housing projects from the Housing Division of the Public Works Administration—Jane Addams Homes on the West Side, Trumbull Park Homes on the South Side, and Julia C. Lathrop Homes on the North Side. Today the city is full of conferences over the Wagner-Steagall Act and its possibilities. A big problem is Negro housing. The Negro is the poorest housed Chicagoan, and is fast



CHICAGO'S BUILDING PROBLEM—This map, prepared for the Chicago Plan Commission, shows what Chicago experts call the city's "blighted area." This district—extending from three to five miles from the Loop—can by no means be considered as all slums, but the proportion of middle-class families is low, and the city considers the district least likely to attract new building capital.

pushing south from his main neighborhood on the South Side.

Business men, who want rehabilitation of the "Blighted Area," and stabilization of other areas, don't expect too much of the Wagner-Steagall Housing Act, and believe the local governments must lend big hands. Some of them would like to see parks and playgrounds set up as buffer areas. They believe, moreover, that stabilization must come through some more finely drawn regulation than is provided by the zoning ordinances, which have broken down in Chicago as in other cities. But, however they get it, they want stabilization. They think it is important that the lessor and the lessee of a chain store know what racial and income group will live in the community five or ten years later.

Factors Holding Back Building

Aside from high taxes and relatively low rents, other causes for the failure of Chicago's "boom" to materialize, cited by one or more builders, brokers, bankers, or engineers, are "an outworn building code," drawn by a brick-minded group and alleged to discriminate against numerous economical materials; high cost of labor and materials; high freight rates and costs; jurisdictional disputes of labor unions; and fear of labor racketeering.

A banker, admitting that the fear of racketeering probably was a factor in Chicago's lethargy, cited the crusading District Attorney Courtney as evidence that racketeering cannot get very far. A big builder said, "Like the poor, it has been with us always—and probably it always will be. But one should not attach too much importance to it."

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Vitamin Copy

In its Nov. 27, 1937 issue *Business Week* published under the heading "Vitamin Ads Under Fire," a news report on the increased mention of vitamins in advertising copy and the increased activity of the Federal Trade Commission in issuing complaints against alleged misleading claims for vitamins in food and drug products, noting particularly action taken against a manufacturer of a "Vitamin D Soap." With this article there appeared, as illustration, reproductions of advertising copy used for Woodbury's Soap in 1936 and Pond's Face Cream in 1937. As stated in the caption beneath this illustration, its purpose was to show the development in vitamin advertising by reputable companies over a year's time. No statement was made or implication intended that either of these advertisers has put out any misleading or unethical advertising or has been subject to investigation or complaint in connection with the Trade Commission's manifest new interest in the policing of vitamin copy for cosmetics.

Wide World

CAPTAIN-ADMINISTRATOR — Last week the head of FAA, W. S. Alexander, fired another salvo at brewers.

FAA Hits at Beer

Administrator seeks to extend permit control over malt beverages. Brewers object.

THE brewing industry, viewing with alarm a revival of prohibition activity, is trying to dissociate itself from a traditional hook-up with liquor. Food value of beer is extolled, its exhilarating qualities soft-pedaled. This strategy has been rudely dented by Captain W. S. Alexander, Federal Alcohol Administrator. Last fall he told a brewers' convention that the industry had plenty of abuses to answer for, that he wanted to put them under FAA permits (*BW—Nov.6'37,p50*).

Last week the captain-administrator fired another salvo. In a voluminous report he again urged Congress to put brewers under the basic federal permit system and under fair trade provisions of the federal act which would give the government as much control over their practices as it has over those of distillers. He mentioned "the effort by certain brewers to distinguish malt beverages from alcoholic beverages" and added that "there is no just reason whatever for such classification." Social aspects of the problem were cited.

Brewing interests are busy with their defense lines. Representatives of trade associations present arguments against the Alexander proposals. Some of them are that federal permits would:

(a) Increase bureaucratic control over an industry that doesn't need it.

(b) Increase costs by adding up-keep for a staff of inspectors.

(c) Fail to stop abuses, which exist under present FAA permits.

(d) Bring unwholesome political considerations into the license situation.

Liquor Price War Quiets Down

Injunctions in New York curtail price-cutting, but aren't 100% effective. New Jersey Liquor Administrator proposes license revocation.

THE liquor price war, which went full steam through the holiday season, seems to have pretty much abated in New York City. It was slowed down appreciably when the major producers began injunction proceedings against the most flagrant retail violators of "fair trade" contracts. But it wasn't finished for good. To do that producers would probably have to get injunctions against every liquor retailer in the city. As it stands now, the injunction method of price-maintenance has proved vulnerable. When small retailers cut prices on National Distillers' Mount Vernon and Old Overholt whiskies under the $3.25 contract prices, even those other retailers who had been enjoined from selling below that price tossed their injunctions to the winds to meet the competition, until the two whiskies were selling as low as $2.45. National Distillers promptly instituted contempt of court order proceedings, which are now awaiting decision, as are similar actions begun by Seagram and Schenley.

Most of the cut prices in New York now are "under the counter," but domestic producers are still having their troubles with Scotch. Prices are being maintained on domestic Scotch, owing to injunction orders while importers, who haven't made much attempt to institute injunction proceedings all through the war, are still letting retailers cut prices on their products without much interference; and thus sales of domestic Scotch have suffered.

The Situation in New Jersey

In the thick of the New York City war last month, the fever spread over into New Jersey, where the battles were, if anything, worse. And though the situation in New Jersey too, has settled down by now, prices are not being maintained at contract levels. Rather, there is a quiet but general situation of low prices all around.

When the Jersey war began, distillers followed the tactics they had used in New York, and brought injunction proceedings against the more flagrant price cutters.

They received an unexpected setback, however, when Vice Chancellor Bigelow, in the New Jersey Court of Chancery, ordered the injunctions of both Calvert and National Distillers against five retailers vacated, on the grounds that "fair trade" agreements under the New Jersey Fair Trade Law were of doubtful validity. And at the same time a suit brought by three retailers against a price-cutting competitor was dismissed with the argument that "fair trade" laws were designed to protect the distillers' trademarks, and retailers, having no interest in such, therefore had no right to maintain suits.

Within a few days Vice Chancellor Alfred Stein, unimpressed by the Bigelow decision in regard to New Jersey fair trade contracts, granted the Houbigant Sales Corp. a temporary injunction against an East Orange retailer, restraining him from cutting prices under contract levels.

Commissioner Burnett's Plan

With the "fair trade" situation at a legal standstill, Alcoholic Beverage Commissioner D. Frederick Burnett of New Jersey stepped in. He is famed for the efficient clean-up job he has done in New Jersey since repeal, and for his sparkling opinions on assorted cases. (Said the widow who was accused of possessing illegal liquor: "My husband made it. I was keeping it to honor his memory." Said the commissioner: "Burn a candle.") Commissioner Burnett had a plan whereby the price structure in the liquor industry might be "stabilized rather than ruptured." To Gov. Hoffman and the legislature went the details.

"Consideration," he wrote, "might well be given to the thought of implementing the experimental Fair Trade Laws, now in the studio stage. Control of prices, as such, are not within the purview of the Control Act and hence not within the jurisdiction of this department. A new provision, however, to the effect that a conviction for a violation of the Fair Trade Act shall be cause for the State Commissioner to revoke or suspend the liquor license would afford, I believe, a wholesome measure of much needed economic relief."

Retailers Favor the Idea

Under the sponsorship of several package liquor store associations, this recommendation, in the form of a bill, is to be presented to the legislature, which convened in Trenton this week. While retailers generally favor such a plan, distillers were inclined to want the enforcement of fair trade laws to stay with them.

In other quarters there was doubt whether the "fair trade" laws had been in effect long enough to prove their worth, and the plan was therefore opposed. And others felt it would give the commissioner, who already has plenty of power, too much of it. There was nobody to say that it wouldn't stop price-cutting, though.

Using Bingo to Lure Grocery Buyers

BINGO, that off-shoot of the old corn game which has swept the country at church bazaars, movie bank nights, etc., is now being used to stimulate the grocery business. Last week the Bohack chain, operators of food stores and supermarkets in the New York area, staged the first bingo party in its Brooklyn supermarket. Prizes of ten lamps lured fifteen hundred women shoppers into the store, and for an hour after the game enthusiastic crowds swamped the store's clerks. J. C. Harlacker, 30 West 22nd st., New York, produced the show for Bohack, is busy contracting other stores in the metropolitan area.

Ban Secret Formulas

North Dakota law requires ingredient listing; drug products are outlawed when manufacturers refuse to comply.

Last July when the North Dakota State Legislature amended the state food and drugs act, drug manufacturers scarcely batted an eye. Last month, as North Dakota set about enforcing the act, manufacturers discovered that not only had North Dakota slipped through the toughest act of them all, but it was going to do its best to make it work.

The paragraph which was causing all the trouble, and the one which made the act the toughest on record was one that makes formula disclosure mandatory. In language reminiscent of the original "Tugwell Bill," it states that "for the purposes of this Act an article shall . . . be deemed to be misbranded in the case of drugs . . . if it is not designated solely by a name recognized in the United States Pharmacopœia or the National Formulary and its label fails to bear a common or usual name of the drug if such there be; or in case it is fabricated from two or more ingredients, the name of each active ingredient, and the quantity, kind and proportion of any alcohol; Provided, however if such statements of the ingredients alone be insufficient to prevent fraud or deception or to convey to the purchaser the true nature of the product, the percentage of each ingredient shall in addition be required."

State Checks Up

And though the act required the label "to bear plainly and conspicuously adequate directions for use" as well, it was evident that what North Dakota was mainly interested in was the unmasking of proprietary products. As proof of its interest, the state recently paid visits to various retailers to check on compliance with the formula-disclosure requirement and, finding none, promptly clapped a ban on the sale of products of some hundred manufacturers.

Retailers set up a howl that sales hadn't been banned all through the state—that one store was selling a product which had been banned at a store across the street. They demanded that manufacturers do something about it. Manufacturers said they didn't intend to.

In the first place, they said, they didn't want to change their whole labeling procedure just to satisfy North Dakota. In the second, they recognized that if they gave in on this act, they would be making a pretty opening for consumer representatives who have been insisting on a similarly strenuous provision in the federal food and drug bill which has been pending for four years. Finally, they said they would not make any labeling changes until they saw what the expected federal law required.

Consequently, in the North Dakota situation, they figured to wait awhile anyway and see if the retailers might not get angry enough by themselves to get the act shelved.

Now, the situation is simmering. It will, the manufacturers say, blow right over as though the act had never made such demands. At least that's what they hope. But it may not be taking into account the crusading zeal of the North Dakota Food & Drug Commissioner, C. S. Ladd, who put the act through.

MARKETING ANGLES

Bristol-Myers Co. keeps up its court fight for fair trade. Having announced last month that it was going to test the fair trade laws out on various counts (*BW—Dec11'37,p30*). Bristol-Myers promptly brought suit against L. Bamberger & Co., Newark, N. J., accusing the department store of unfair competition within the meaning of the state fair trade act in granting its employees a 10% discount on store purchases. Next, Bristol-Myers tackled two drug retailers—one in Philadelphia and one in Troy, N. Y.—charging violation of the individual state acts in the distribution of trading stamps and coupons with B-M goods. Bristol-Myers won all test cases.

* * *

The Northland Milk & Ice Cream Co. in Minneapolis, where milk sells for 11¢, recently ran ballots in their newspaper ads (*BW—Jan1'38,p29*) to ask their customers whether they'd rather buy milk for 9¢ and pay 3¢ for each delivery. In this way a housewife could buy two quarts every other day, instead of one quart a day and save a penny on every transaction. The Milk Drivers and Dairy Employees Union started a counter campaign against the milk company, claiming that the plan would cut down employment. With the ballots all in by now—1,200 of them—the company reports that 60% favor the new plan, 40% oppose it. And those figures are probably heavily loaded with union objections—which, incidentally, the company says aren't valid in the face of tests which show that increased consumption would more than offset reductions in deliveries to present customers.

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The Thrift Co-op., an energetic young consumer group in Seattle, Washington, organized last summer has opened its first supermarket in Seattle, with a gasoline station and adjoining parking lot. Additional units are to be opened later until the group has complete distribution throughout the state.

* * *

Last March when the textile division of the New York Board of Trade suggested to the Federal Trade Commission a set of trade rules governing the declaration of shrinkage in cotton goods, it stirred up a hornet's nest. Finishers and converters protested that there were such widely varying qualities of cotton cloth that such rules were impracticable. This week, after a general trade practice conference held last fall, the FTC published its proposed rules to govern shrinkage claims. They look to the elimination of all such designations of cotton goods as "Full Shrunk," "Preshrunk," "Shrinkproof" and the like, if the goods have not been shrunk so that there is no residual shrink left in them. In the case of such goods as have some residual shrinkage left, they may be described as "Preshrunk," etc., if the phrase is used in conjunction with a true statement giving the percentage, determined by standard test, of shrinkage remaining in the goods. Oral arguments on the rules are to be heard in Washington on January 27.

* * *

An Institute of Reader Research has been formed in Fort Wayne, Indiana, to publish a monthly *Marketing Index*. Though there are some 1,400 trade papers in the U.S. the Institute doesn't believe that there's any adequate central index where their articles are listed—especially in the advertising, selling, and marketing field. The *Marketing Index* is to list the material appearing in 100 leading papers in the advertising and selling field—90% of which are not listed in any other service, they say. Subscriptions are $15 a year.

* * *

Consumers foundation (*BW—Jan8'38,p20*) takes its first step forward—and lands in hot water. Donald E. Montgomery, consumers' counsel for the AAA, writing for himself, Stacy May of the Rockefeller Foundation, and Mrs. Bert Hendrickson, clubwoman, all of whom were listed in the foundation's prospectus as members of the organizing committee, explains that the prospectus is slightly misleading since all three resigned from the foundation November 23 last "because we were not convinced that the procedure followed was such as to insure an organization that would operate effectively and honestly in the consumer interest." Which is a delicate way of saying that they suspect the rightwing, pro-business inclinations of the foundation.

* * *

For over a year the Wheeling Steel Corp., in Wheeling, W. Va., has been airing a novel weekly radio show over its local station, WWVA, and over WPAY, in Portsmouth, O. There aren't any big names on the program, or any Hollywood talent—as a matter of fact, all the entertainers come from one or another of the company's plants. There's a 16 piece band known as the Musical Steelmakers, a quartet of Singing Millmen, a soprano, and a gentleman from the general office payroll department to give the commercial plugs. Guest stars are workers as well. A brainchild of the company advertising manager, J. L. Grimes, the program has not only done a good advertising and public relations job, but, since Wheeling Steel workers have been among Wheeling's most ardent listeners, it can be credited with a good industrial relations job to boot. This month the show is branching out onto the Mutual network, taking on WOR, New York; WGN, Chicago; and WLW, Cincinnati, for a half hour from 5 to 5:30 p.m., E.S.T., Sunday afternoons.

More "Human" Ads

Promotion pieces from publishers are a sign of more concentration on consumers.

WATCH the ads and you know what objects the advertising business as a whole is aiming at. Watch the promotion pieces that flow from the big publishing houses, the newspaper offices, and the broadcasting companies and you get a slant on what advertising is likely to be driving at tomorrow.

Thus, for example, the study of "Advertising and the Consumer Movement" which the Crowell Publishing Co. issued two months ago (*BW—Nov20'37,p38*) is symptomatic of the advertising fraternity's intense concern about the consumer's demand for hard facts about the goods he buys.

Currently, promotion copy coming from Macfadden Publications and McCall Corp. suggests another notable advertising development for the year 1938, which is corollary to the first. That development can be loosely described as the humanization of advertising copy, manifest in a disposition to talk in terms of the wants of people, not the demands of dealers. This new promotion material suggests a reaction against the concentration of the past few years on the problems of pricing that arise under the various state and federal price-control measures.

Late last summer, *McCall's* fired the opening gun with the publication of its pictorial report on the families of Middletown (Muncie, Ind.).

It looked to space buyers like a one-shot proposition, dished up to cash in on publicity which the Lynds' second sociological book on an average town, "Middletown in Transition," was receiving in marketing circles.

But it isn't a one-shot proposition, as advertising men will discover next week when a second lavishly illustrated study will issue from the *McCall* office. This one is devoted to the pattern of life on *McCall* Street in Pittsfield, Mass., "the Middletown of New England." Like its predecessor, it will appraise the habits and hopes of real people—the cakes they bake from magazine recipes, the dresses they make from *McCall* patterns, the response they make to advertised appeals.

Another Study on Markets

Almost simultaneously, *McCall* will issue another study which will tackle from still another angle the problem of showing that markets are people, not places. Entitled "Traffic Flow and Shopping Habits," the study hits primarily at the practice of slavishly following data from the 1935 Census of Business in the apportionment of sales and advertising effort. Census figures may show that large cities account for more than twice as much goods as small towns, but these data may be misleading in that they fail to show that small town buyers go to big cities and buy a lot of goods there.

Exhaustive mapping of the patterns of trade in Ohio undertaken by Russel Burnet of Harvard University, coupled with a detailed analysis of the shopping habits in one small town—that of Logan, Ohio—, shows that small town buyers are as important as those in the big cities, suggests the desirability of spreading advertising effort evenly in urban and rural homes, and shows that magazines constitute an ideal advertising medium for the pre-selection of the best prospects.

Finding Out about Small Towns

For several months, *Liberty* has been out rediscovering America in the small and medium-sized towns—telling advertisers about the kind of people there who read their copy and buy their goods. *True Story* has been finding out "what gets people excited" in the ads and in the editorial context.

Advertising managers and advertising agencies welcome this type of promotion, for there is a growing feeling that advertising for the past half dozen years has been mistakenly subordinated to the necessities of the sales department and used on a shot-in-the-arm basis to stimulate activity in particular markets at particular times.

It hasn't according to advertising men, been allowed to do the job it ought to do of laying down an alluvial deposit of demand-building copy on a broad national basis—copy that is couched in terms of consumer want, not dealer profits.

Church Sales Scheme

Imitating Goodwin Plan, grocer sells to religious and charity organizations.

BACK in 1935 a man named Adolph O. Goodwin developed a colossal advertising and merchandising scheme known as the Goodwin Plan. Several hundred manufacturers contracted with Goodwin to have their products (non-competing) listed in his catalogue, "Shopping Guide to Prudent Buying." The catalogue, some 3,000,000 copies of it, went out to churches all over the country. In each church there were Goodwin agents, known as "broadcasters," who contacted other church members and got them to buy the products that were listed in the catalogue.

By saving the labels, slips, or box tops, and sending them in to Plan headquarters, women got back 2% of the total valuation of the articles they bought, which they could give to their church. Manufacturers got an organized word-of-mouth advertising campaign, for which they paid the Plan 3½% of the total valuation of each article.

Germ of a Profitable Idea

The Goodwin Plan toppled of its own weight not very long after it began, and when last heard from in March, 1936, its good will and other properties were being sold at auction for $575. Still, there was the germ of a good idea in the plan, and though nothing approaching its size has ever been attempted since, variations on the Goodwin theme have sprung up in miniature ever since its decease.

One of these is used by the Frankford Grocery Co. in Philadelphia to promote its private brands. From Sept. 14 to Dec. 12, 1936, the company ran its first Cooperative Advertising Plan, agreeing to pay back 5% of the retail cost of its "Unity" or "Frankford" brands of merchandise which were bought by churches, hospitals, or charitable organizations—which were the only groups eligible for the plan. Four hundred of them entered it, and the grocery company paid out $7,724.24 to them—"the best advertising money we have ever spent," said the company.

Plan Proves Successful

So successful was the plan that last year it was used again, with a few minor changes.

Knowing that many organizations had been saving up labels all year, the company had to duck out of its 5% rebate this time and offer 25¢ per 100 labels instead—a procedure that made the clerical work easier, too. And with 450 cooperating organizations this time, the plan was again an all-around success, and paid out well over the 1936 figure.

U. S. Helps Oil Industry Plan

Bureau of Mines charts the probable demand, but its forecast is only made effective by the states, which crack down to limit production.

WASHINGTON (*Business Week Bureau*) —President Roosevelt's idea that government and industry cooperate in steering the course of business by charting probable demand is nothing new to the oil industry. A system has been in vogue since the winter of '33 under which the U. S. Bureau of Mines forecasts crude oil requirements from month to month. This is converted from estimates of motor fuel demand based on the number of automobiles in use and gas consumption per car, correlated with the Federal Reserve index of business conditions. It's not quite as simple as that but the result has been to maintain a reasonable balance between supply and demand.

The oil industry has fared well under the statistical guidance furnished by the Bureau of Mines. Testimonials to the value of the service rendered are numerous. For instance, E. B. Reeser, president of Barnsdall Oil Co., writes, under date of May 15, 1937, to the Texas Railroad Commission:

"Fortunately, the Bureau of Mines of the federal government keeps an eye on the activities of the industry over the entire length and breadth of the nation. It has no selfish interests to consider. Its report on the national supply and demand, together with the carefully prepared statistics of your department, must be regarded as an accurate yardstick and its signals should be observed."

Government Renders Service

John M. Lovejoy, president of the Seaboard Oil Co., urged the Independent Petroleum Association at its May, 1936, meeting in Tulsa to use its influence to bring production into line with the Bureau of Mines figures. "The Government, through the Bureau of Mines," said Mr. Lovejoy, "renders us a great service in publishing each month the estimated demand."

Stability in the oil industry has not been achieved, however, merely by the federal government's forecast of market requirements. In discussing the application of this idea to various lines of industry, the President declined to carry it through to allocation of business. He did not cite the petroleum industry as an example in which the forecast is issued as the basis for bringing into play the enforcement machinery set up under the oil states' compact and under state proration laws to control and divide production.

There is competent evidence that, without compulsory application, the federal government's forecast would have little influence. Production control on the basis of the forecast first was effected under the oil code. When that was invalidated, crude production shot 'way up and stability was not restored until state proration laws were given practical effect. The oil states' compact aided in protecting each from the other's competition.

They Jump on Offenders

"By far the major portion of the task of balancing supply and demand of petroleum in 1936 was performed by the various state regulatory bodies," the Bureau of Mines reports in its 1937 Minerals Yearbook. The bureau's monthly forecast shows a breakdown for each of the oil producing states. There is no federal law which requires any state to limit its production to this estimate, but the offender is promptly jumped on by the others; and the "monthly allowable" production established by each state, based on the Bureau of Mines estimate and various subsidiary factors, is carried into effect by proration orders to the oil fields. The bureau's estimate serves as a guide for state officials, but they do not necessarily follow it exactly. Of the half dozen states which have ratified the oil compact, Texas, Oklahoma, Kansas, and New Mexico are the biggest producers. Barred by its constitution, California is not a member. Neither is Louisiana. But both states have control machinery that is geared to the monthly forecast.

An Object Lesson

The oil industry's experience may be an object lesson in testing application of the President's proposal to other industries. The facts indicate that, to be effective, resort is necessary to methods of application that he is not willing to contemplate.

Little fellows in the oil industry claim incidentally that they are getting the worst of it under the present system; so we find Charles F. Roeser, president of the Independent Petroleum Association of America, applauding the President's suggestion and informing him that this independent organization has long advocated legislation authorizing voluntary agreements within an industry subject to the approval of a proper federal authority.

In the marketing phase of its operations, where the industry also has sought stabilization, it has run into prosecutions for violation of the antitrust laws.

Santa Fe Opens New San Francisco Terminal

WITH 1938 the Santa Fe Railroad entered San Francisco for the first time, as far as rail passenger service is concerned, with the opening of a new terminal in the business district, one block from Market Street and near the San Francisco terminal of the bay bridge rapid transit system which is now under construction.

Buses carry Santa Fe passengers from San Francisco over the bridge directly to the company's rail terminal in Oakland, eliminating a long trip by ferry and electric railway which has handicapped the railroad in bidding for transcontinental passenger service.

The new terminal also places the Santa Fe in a more advantageous position to compete with the Southern Pacific for San Francisco-Los Angeles passenger traffic. If the California Railroad Commission grants intra-state bus permits now pending, the Santa Fe plans to speed service by carrying Los Angeles-bound passengers from San Francisco to Bakersfield at the southern end of the San Joaquin Valley, and there transfer to buses for the run into Los Angeles. At present, Santa Fe trains make a loop eastward from Bakersfield to Barstow and then head back to Los Angeles on the east-west main line.

Oil Industry Cheers

1937 record causes rejoicing. But growth in inventories is reason for caution.

THE oil industry is cheering lustily over its 1937 figures. Crude production made an all-time record of 1,280,000,000 bbl. which bettered 1936 by 17%. Net company income was higher than any year except 1929. There were 1,500,000 domestic oil burners to boost off-season demand. Effective check on crude output was maintained.

But there is a disturbing undertone to the general rejoicing. Refiners have increased gasoline inventories while keeping up production of fuel oils. Between the end of September and Dec. 18, gasoline stocks rose from 64,316,000 bbl. to 73,288,000. Inventories are up almost 20% from last year but gasoline demand has risen only half as much. Moreover, crude now in storage is estimated at 303,000,000 bbl., against 288,184,000 at the beginning of 1937.

Gasoline prices have softened. There is a serious question whether crude prices can resist the downward pull.

State allowables at this juncture furnish another disquieting factor. Oklahoma was the only big producer to set its January production quotas at less than the U. S. Bureau of Mines estimate of needs. Texas, Louisiana, Kansas, New Mexico were well above. Their quotas range from 4,000 to 17,600 bbl. per day in excess of what the bureau thinks necessary.

W. S. Farish, president of Standard Oil Co. (N. J.), says, "It appears likely that we will enter the gasoline-consuming season (Mar. 31) in 1938 with 93,000,000 bbl. of gasoline in storage—12,000,000 bbl. more than the wholly adequate stocks we had on hand at the corresponding date in 1937."

In other words, "Stop, look, and listen." With 30,000,000 motor cars rolling our roads, and effective state supervision of crude, there is no chance of a serious price collapse. Company seers figure that 1938 volume is bound to beat 1937 but they doubt if profits or prices will make so good a showing.

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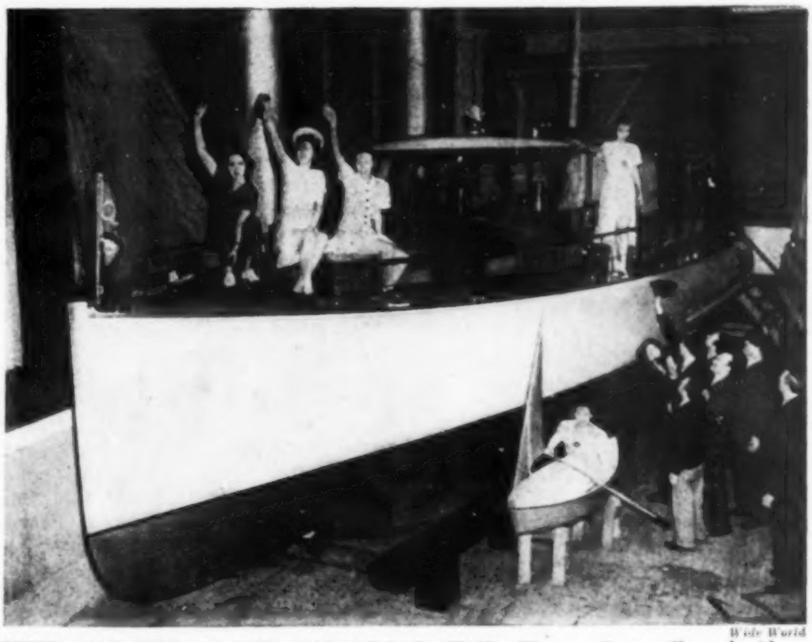
Dallas Shows the Way

BURGOMASTERS, harassed by needs of more things to tax, may get some helpful ideas from Dallas. The International City Managers' Association reports several devices by which the Texas city hopes to meet increased relief and other burdens. Dallas estimates that during 1938 it will get $26,000 from a 4% levy on gross taxicab earnings, $9,700 from a seat tax on buses, $16,000 from a gross receipts tax on the telephone company. Revenue from sidewalk parking meters is expected to reach $146,000 this year.



Wide World

MUTT AND JEFF AT THE MOTORBOAT SHOW—The smallest sailboat beside a 46-foot luxury cruiser at the exhibition of pleasure boats this week at Grand Central Palace in New York.

Motor Boat Show

Largest since '29, it has had 180 exhibits. Manufacturers report prosperity.

THE 33rd Annual National Motor Boat Show, which winds up a nine-day run at Grand Central Palace, New York, tonight, Jan. 15, proved to be the largest since 1929. More than 200 manufacturers participated in 180 joint and several exhibits ranging from 46-ft. sea-going cruisers to strictly non-skid rubber-soled shoes and boots calculated to keep mariners upright in almost any kind of slippery going. Show's bigness reflects inherent prosperity of the motor boat industry, it being one at least whose activity has continued regardless of recession and normal seasonal trends. The 1937 boating season persisted far into the fall. December was reported by National Association of Engine and Boat Manufacturers, sponsor of the show, as having been the biggest in history.

Figures gathered by the association from 66 representative boat, engine, and accessory manufacturers show that they averaged a 40% increase in 1937 over 1936, which is all the more surprising when it is remembered that a similar increase was staged over 1935 in 1936. Outboard engine manufacturers reported 1937 business as 60% better than that of 1936. These figures are not to be sneezed at, in view of the $100,000,000 spent annually by boat owners for maintenance and replacement (about twice what is spent annually in support of the nation's golf game).

Engine manufacturers might be worried about the number of sailboats on exhibition and a possible trend toward powerless boating (Stars, Comets, Snipes, Sandpipers, and various racing classes seemed to be everywhere); but they were far too busy explaining how diesel engines have advanced speeds from 500 up to 3,000 r.p.m. in the past few years and how gasoline engines have increased their power, size for size, through increased use of lighter-weight alloys, improved carburetion, and hotter ignition. More gas engine builders than ever are adding oil burning models to their lines. Largest engine was of course a diesel; smallest weighed less than 10½ lb., a little 1.2-hp. gas outboard job with engine and all moving parts entirely submerged for better cooling.

Improvements Displayed

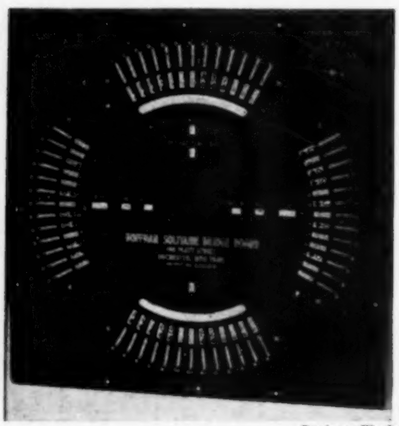
Greatest single trend in hulls evidenced by the show was the swing toward steadiness and seaworthiness through broader beams and heavier construction. One outboard boat was almost as wide as long, better to fit on tops of automobiles for cross-country portages. Greatest improvement from many points of view was the more extensive insulating and sound-proofing of engine compartments. Most generally interesting new things in accessories were: a simplified form of compass card; a new fresh water cooling system with cellular heat exchanger like an automobile radiator; a revolutionary boat hook which practically ties boats to docks automatically. Greatest crowd gatherer was a 27-ft. whaleboat dating back to the 18th century.

New Products—New processes, new designs; new applications of old materials and ideas.

RIGHT in the midst of the season for frosted store windows, comes a little electrical device to assist in keeping them clear. Made by Julien P. Friez & Sons, Inc., Baltimore St. & Central Ave., Baltimore, the "Windowstat" is designed for operation in conjunction with the Friez "Humidistat" humidity control, but it can be used to stop and start de-humidifying equipment, such as strip heaters or fans blowing across windows. When danger of condensation crops up, Windowstat does its job automatically.

DESIGNED for attachment to an electrical linesman's belt, the new "Ideal Friction and Rubber Tape Holder" of Ideal Commutator Dresser Co., Sycamore, Ill., should do yeoman service in many a manufacturing and maintenance operation as well.

THOUGH the solitaire player using the "Hoffman Solitaire Bridge Board" may look as though he were trying to outwit himself, he actually has a partner and two expert opponents. After inserting



Business Week

any one of a number of preselected "hands" in the device, he twists a dial and bids, checks up on the bids of opponents and partner, only to go on bidding until a contract is reached. Automatic bidding and play of the hands have been so skillfully worked out by Hoffman Solitaire Bridge Board, 195 Platt St., Rochester, N. Y., that the player will be set by his unseen opponents unless he watches himself.

INGENIOUS feature of the "deluxe CF Janitrol conditioner" is its "compensating control." As developed by Surface Combustion Co., Toledo, an outdoor thermometric bulb is so hitched to a special valve in the gas line that it will turn on more gas automatically when weather chills rapidly and before inside room temperatures have begun to be affected. Conversely, the bulb will cause gas to be turned down when weather veers suddenly to the warm side.

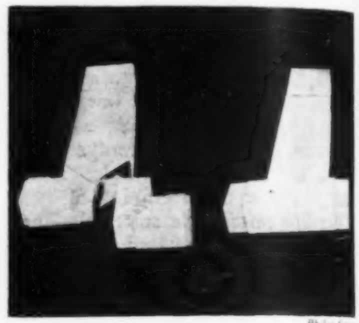
NEW methods of internal bracing make the new "5700" letter-file line of Globe-Wernicke Co., Carthage Ave., Norwood, Cincinnati, stronger than ever, at the same time cutting down floor area by a good 7%. New patented mechanism makes for smoother, quieter, easier drawer operation. Even the guide rod buttons have been streamlined to prevent catching and snaring clothing.

THEY are putting in "hot air curtains" at the Olds Motor Works, Lansing, Mich., to protect Oldsmobile final assembly workers from wintry drafts. Over and across each doorless door leading to the shipping docks, there will be a narrow vent. A huge rotary fan will drive heated air downward as an invisible screen against outside cold.

OFTEN enough to be troublesome, the chips coming off the cutting edge of a carbide-tipped tool will wear the tool's body more rapidly than the tip itself. To extend the material of the tip farther down the tool's face is likely to mean too high an original cost. Michigan Tool Co., Detroit, is now offering "Crobalt," (a non-ferrous, corrosion-resistant, hard metal consisting mainly of cobalt, chromium, and tungsten) to protect the non-cutting wearing surfaces of carbide-tipped drills, lathe tools, boring bars and the like. It may be applied by means of a special welding rod or in the form of precast inserts.

ONLY slightly larger than hand "Model 33," the new portable electric Protectograph of Todd Co., Rochester, N. Y., will write 1,200 checks per hour. All the Todd protective features are retained: forged brass type, ribbon inking, keyboard operation.

BUILDERS who lean toward central air conditioning units will do well to look up "Careyduct" at the 5th International Heating & Ventilating Exposition, Grand Central Palace, New York, Jan. 24-28. This prefabricated, easily erected



Philip Carey

duct is made entirely of asbestos. As designed by Philip Carey Co., Lockland, Cincinnati, it has a friction factor comparable to that of metal duct. All-asbestos construction insures high heat insulation values and noise control.

WHENEVER more than two colors are required of one pencil, Autopoint Co., 1801 Foster Ave., Chicago, will supply its "Double-Point Autopoint" pencil with three extra tips neatly packed in a durable box. Thus, it will be possible to have on tap at one time: black, red, blue, yellow, and green.

Heil

INDICATING SCRAPER—Visitors at the Road Show, Cleveland, Jan. 17-21, will see the first public presentation of new "Dig-N-Carry" Hydraulic Scrapers developed by Heil Co., Milwaukee. One outstanding feature is an indicator dial which takes guesswork out of operation by showing the operator the depth of the cut when scraping and the height of the bowl above the ground when spreading. Mechanism is simplicity itself. Only three identical hydraulic cylinders, with all component parts interchangeable, are required for operation.

Home Tax Exemption

Gov. White of Mississippi wants state constitution to grant complete tax freedom.

Gov. Hugh L. White, who recommended to the Mississippi legislature last week that all state, county, and municipal taxes be lifted from every home within the state, says he believes his constitutional amendment will become operative next year.

Basing his assertion on an anticipated $10,000,000 biennial surplus in the state treasury after 1940, the governor said he was confident the amendment would receive legislative approval and would be submitted to the electorate for ratification at the general election next November. He declined to reveal complete details of his plan. A senate committee was appointed "to confer with the governor and ascertain his plan and report its findings."

Reaction Is Favorable

The governor wants a joint legislative committee to work out the details of the exemption plan, including the furnishing of state funds to cities and counties to make up for revenue lost by exemptions. The reaction in newspapers and comment among legislative leaders is almost unanimous for the plan if it can be worked out as Gov. White says it can. But anti-administration leaders expressed doubt of its practicality.

In his two years as chief executive, however, Gov. White has seen more of his platform carried out by the legislature than did any other governor in the same length of time in recent Mississippi history. Mississippi, a bankrupt state, was the first to adopt the general sales tax. It now has a cash surplus amounting to $4,000,000.

Plans to Relieve All Homes

At present Mississippi exempts $2,500 on homes from state taxes. Gov. White plans to relieve all homes, and 40 acres of land with each farm home, from all taxation. The state now collects ad valorem taxes of 8 mills, but the governor has ordered that the tax be slashed in half next year. State Tax Commission officials estimated abolition of the remaining 4-mill ad valorem tax would reduce state income by approximately $1,600,000 for the next biennium and would result in loss of about $7,500,000 in local revenues.

"If the proposal is placed in execution by constitutional amendment it will result in great development of the state," the governor commented. He forecast rapid development of Mississippi's Gulf Coast resort area, and said his plan would entail no suffering, either to the counties or to the municipalities.

Coast Shipping Blues Lifting

Maritime Commission's subsidy grant gives hope for rehabilitation of Dollar Line; Kennedy pledges aid in helping Coast lines meet foreign competition.

PACIFIC COAST business is breathing somewhat easier this week following the visit of Joseph P. Kennedy who made a streamline tour of the western seaboard for a first-hand glimpse of the maritime muddle there.

The knottiest problem was disposed of, temporarily, when Kennedy announced that officials of the Dollar Steamship Co. had accepted terms laid down by the Maritime Commission for rehabilitation of the line and that a six-month operating subsidy totalling about $1,300,000 ($7,000 a day) had been granted. Interrupted sailings are to be resumed and a determined effort made to put the firm on a long-term basis.

Conditions imposed include: (1) that a man, selected by the government, act as vice-president and financial adviser; (2) that the company get its financial house in order and raise enough local capital (presumably $6,000,000 to $8,000,000) to assure successful operation of the line including the construction of some new ships; (3) that the company simplify its organization set-up and free itself from a tangle of subsidiaries and syndicates.

Dollar already has been meeting this last condition. The Pacific Lighterage Co., stevedoring subsidiary, has been divorced from the parent company and other simplifications are in progress.

Frowns on "Frenzied Financing"

The government also demands definite and practical assurances that Dollar will not indulge in any schemes of frenzied financing. Observers recall that, during the Black Senate investigation into ocean mail contracts, the Dollar company was shown to be enmeshed in an almost bewildering maze of syndicates, groups and subsidiaries. R. Stanley Dollar, head of the firm, had realized something like $5,000,000 over a ten year period. The Congressional investigation further revealed that the Dollar principals,—R. Stanley Dollar, J. Harold Dollar, (who died about a year ago), banker Herbert Fleishhacker, and H. M. Lorber—realized total profits of $14,690,528 over the same period. Of this amount, cash withdrawals of the four were: R. Stanley Dollar, $2,338,562; J. Harold Dollar, $953,081; Herbert Fleishhacker, $366,756; and H. M. Lorber, $667,093—a total cash withdrawal by the four of $4,325,493. The Postmaster-General's report to the committee subsequently declared that "the evidence shows that one of the contributing causes of the company's delinquencies was excessive cash withdrawals, directly or indirectly, through their respective families or family corporations by the four Dollar principals."

Since these revelations, the Dollar line has been decidedly hard hit. The general business depression, labor troubles, wrecks, wars and a suddenly stern government have dealt blow after blow. The first blow fell last February when the Government withheld mail pay due the line as security for defaulted interest payments totalling more than $1,000,000. Since then, the line has drawn not one cent of subsidy. (Dollar filed suit in the U. S. Court of Claims for $5,905,000 damages as a result of withheld and cancelled mail contract payments. Observers believe this suit will be dropped in view of present arrangements.)

Timely Assistance

"Solution" of the problem of the Pacific Coast's No. 1 American-owned foreign steamship service was timely in the extreme. For the last few months the house flag of the once mighty Dollar line has been slowly and painfully fading from the seven seas. On the day of Kennedy's arrival in San Francisco, the last of the company's ships with a definite sailing date, except one, was preparing to clear for the Orient. She was the *President Taft*. The only other sailing scheduled was that of the *President Coolidge*, sister ship of the ill-fated *President Hoover*, scheduled to clear for the Far East Feb. 5. Of the 15 other vessels in the Dollar fleet normally plying the trade routes of the world, four were completing voyages with no further bookings listed and 11 already were laid up. Now, new sailings are being scheduled as rapidly as they can be arranged.

Government Ownership?

But, while business in general welcomes the lifebelt thrown to the Dollar interests, the shipping fraternity is not so enthusiastic. Many operators think they see in the Dollar arrangement a possible first step toward government ownership. They point out that the hard fact of the matter is that the government has in effect already taken over the Dollar line and has merely granted the company six months in which to reclaim it. Kennedy himself, in a press interview, indicated that, if the Dollar group can't raise the money, the government will take over the line.

To lure from $5,000,000 to $8,000,000 into a venture that has shown little or no profit (excluding subsidies) for several years will be a task, Coast financiers admit. Banker Herbert Fleishhacker has long been identified with the financial structure of the Dollar concerns, but his interest is said to have lagged considerably.

Kennedy summed up the Dollar difficulties tersely when he said in San

More Ship Lines Get Subsidies

The United States Maritime Commission has concluded long-term subsidy agreements with the following seven steamship companies, which include commitments to build 20 new ships before 1942, and plan construction of another 23 in order to make their services comply with the new modern standards of the commission:

Line	*Annual Subsidy*
Grace Steamship Co.	$1,083,000
Lykes Brothers-Ripley Steamship Co., Inc.	2,290,000
Mississippi Shipping Co.	406,000
New York and Cuba Mail Steamship Co.	398,000
Oceanic Steamship Co.	650,000
South Atlantic Steamship Co.	266,000
United States Lines, Inc.	2,266,000
Total	*7,359,000

* 57% will be used for subsistence and wages of operating personnel

Temporary short-term subsidy agreements have been reached with the following lines, pending completion of negotiations for long-term pacts:

Line	*Duration of Special Subsidy*
American Scantic Line, Inc.	3 months
American South African Line, Inc.	3 "
Colombian Steamship Co., Inc.	3 "
Eastern Steamship Lines, Inc.	3 "
Baltimore Mail Steamship Co.	9 "
Pacific Argentine Brazil Line, Inc.	2 "
Dollar Steamship Co.†	6 "

† Conditional on acceptance by Dollar Line of conditions laid down by Maritime Commission

(For map showing routes of all these lines, see BW—Aug14'37,p16)

Francisco: "There doesn't seem to be enough money (in the Dollar group) to build a rowboat."

The Dollar impasse is only one phase of the Coast's gloomy maritime picture. Here are some of the others: (1) labor troubles appear imminent as a result of the Seattle quickie strike by longshoremen and the subsequent tieup of that port; (2) Pacific Coast deepwater trade routes are overwhelmingly dominated by foreign-owned companies; (3) Intercoastal services are suffering a terrific slump. One of the major passenger lines (Grace) cleared its last "luxury" ship from San Francisco, Jan. 6; another (Panama-Pacific) will wind up a similar service Feb. 5.

Of 87 ships bound for San Francisco from foreign ports on a given day (Jan. 8) 67 were foreign-owned and only 20 flew the American flag. Of 62 sailings booked for foreign ports, 58 were foreign and only four American.

Three hundred and eighty-seven deepwater ships are on regular schedules to Pacific Coast ports. Of these, 176 fly the American flag; 212 are foreign. Of the 176 American vessels, only 41 are on foreign trade routes, the other 135 are in intercoastal service. (There are some 90 smaller ships in coastwise service.) Thus, there are more than five times as many foreign-flag ships as there are American vessels plying foreign trade routes from Coast ports. Committees working for an improved American Merchant Marine estimate that 95% of the commerce between the Pacific Coast and Japan and North China is carried in Japanese bottoms.

Commission to Do "All It Can"

Business finds some easing of this depressing picture in the fact that Kennedy has pledged the Maritime Commission to do "all it can" to stimulate Coast shipping. This, he explains, can only come about through Congressional action and for the most part through subsidy in some form. Treaty provisions forbid the lowering of Panama Canal tolls, even for intercoastal ships and, as Kennedy pointed out in San Francisco, the question of a direct subsidy for intercoastal vessels is delicate. The railroads might be expected to oppose such action vigorously.

Business realists on the Coast believe that their chief hope lies in the need for providing adequate national defense in the Pacific. There are some 29 merchant ships under 20 years of age on the Coast suitable as naval auxiliaries in case of emergency. This means that, should the Panama Canal be blocked, the Pacific fleet would be greatly handicapped. In view of this, business sees a prospect that Pacific Coast shipyards will be revived and by means of differentials, allotted a share of the new construction.

ICC and Railroads

Sen. Wheeler raps commission for approving loans. Rate increases aren't certain.

IF Burton K. Wheeler, chairman of the Senate Committee on Interstate Commerce, has his way, the Interstate Commerce Commission will be reorganized drastically "from within"—and pronto.

Sen. Wheeler this week charged the commission with over-leniency in authorizing loans to financially burdened railroads, and cited the provision of the law which lays down the rule that no public funds shall be put at the disposal of roads which ought to be reorganized.

The senator cited two instances: the Baltimore & Ohio and the Erie. To the B. & O., an $8,000,000 advance was made for maintenance and equipment purposes, but the senator avers that the money was to be used to meet financial obligations and that the ICC dodged its responsibility in not determining whether the B. & O. needed to be reorganized.

In the case of the Erie, the ICC certified that the road did not need to undergo reorganization, and therefore authorized a Reconstruction Finance Corp. loan of $6,006,000, but specifically insisted that the Chesapeake & Ohio either guarantee the loan or put up sufficient collateral to justify the advance. This the C. & O. declined to do. The loan was withheld and Erie defaulted on five of its bonds.

Readjustments Take Place

Sen. Wheeler's press outburst is but one of several significant readjustments of a financial nature now taking place with respect to the railroads. In New York State, Superintendent of Banking White declared in his annual report that the savings banks should be required to maintain certain standards with respect to railroad bond holdings.

During the deflation years, the legislature suspended the requirement that interest be covered 1½ times during five out of the six years preceding purchase by a savings bank. That moratorium on legal holdings has been extended year after year. Now, the banking superintendent wants some requirement imposed; not necessarily 1½ times interest charges, but probably at least one times interest charges.

The idea is to bring the law in closer conformity to the realities of the railroad problem, and in effect it is recognition of something that the savings banks themselves long have recognized. Ever since 1931, savings banks have been curtailing their rail bond holdings. At the end of 1931, they held $817,670,000 par value of railroad issues, equal to 41% of their investments. At the end of 1936, rail holdings at par amounted to $496,531,000, or 21% of total investments.

Thus the savings banks have been liquidating, which indicates that one of the major props of railroad bonds—mutual savings banks in New York State—are out of the market.

The Interstate Commerce Commission also had a few "readjustment observations" to offer on railroads. In its annual report, the commission warned investors that the salvation of the railroads does not depend on granting of the request for rate increases.

Noting that its observations do not foreclose the possibility of a rate boost, the commission went on to say that "no competitive industry can work out its salvation through a price-increasing policy alone, and the railroad industry is now, to a very considerable extent, in that class"—meaning the class of competitive industries. The commission said it had repeatedly urged the roads to cooperate with one another toward "coordination of many of their facilities and operations."

Have to Face Competition

The ICC pointed out that the railroads will not be able to earn a satisfactory return merely by the process of boosting rates, but that they have to face the elements of competition from other means of transportation.

This indicates that the commission expects the railroads to do a little readjusting of their own, and that the freight rate increases, calculated to yield approximately $500,000,000 annually, are not a sure thing.

Air Transport Board

Roosevelt wants to lodge control with a new commission. This session will decide.

WASHINGTON (*Business Week Bureau*)—President Roosevelt is trying to stop the dog fight for control of air transport by calling for an independent commission to take over the functions of several government agencies. Sen. McCarran and Rep. Lea are rewriting pending legislation to that end. McCarran's new bill combines both route certificate and safety control features in one amendment to his three-year old bill, favorably reported to the Senate last session. This session probably will decide whether the Interstate Commerce Commission or a separate authority shall rule the air.

The President's job as arbiter will not be easy. The industry had pretty generally accepted the McCarran-Lea proposal for ICC regulation and it was so well entrenched in Congress that a favorable vote seemed more than likely. Effective blocking by the Post Office and Commerce Departments resulted in organization, with the President's consent, some months ago of an interdepartmental air legislation committee to untangle pending bills. This committee wrote a bill which combines the foibles of all the contending factions, but recommended an independent board, as the President requested. Rejecting this hodgepodge, McCarran is going ahead with his own amendment for independent control.

Plan Meets with Opposition

Many members of Congress prepare to oppose the President's plan. They don't like his stipulation, in line with his government reorganization policy, that the new board be responsible to him in executive matters such as national defense and foreign relations. Nor do they like the prospect of an all-powerful board, especially when they contemplate the flock of eligible candidates who are already lurking among Washington's Doric columns. The industry is reluctant to abandon the McCarran-Lea program, and won't commit itself to independent control until it sees the proposal in writing.

Whether the new aviation program is administered by ICC or a separate group, its broad terms will call for emphasis on extension of American operations over world trade routes on a competitive basis, probably with construction subsidies for flying boats and dirigibles by the Maritime Commission to offset foreign cost advantages; control of mail, express, and passenger rates; strong influence from the Post Office over mail schedules and destinations; three or five commissioners to be appointed by the President and confirmed by the Senate.

President Reverses Himself

This is the second time Mr. Roosevelt has reversed himself on the question of independent commission control. Under the air mail law of 1934, which resulted from the Black investigation, the temporary Federal Aviation Commission was set up to report to Congress. Mr. Roosevelt had said he favored control by a separate group. The FAC, after long study, so recommended in its report. But when the President sent the report to Congress he surprised everybody by attaching a memorandum suggesting ICC control. So the report was pigeonholed, as was a bill to enact its provisions, written by Sen. McCarran. After that, McCarran wrote his ICC bill which is now being amended to provide for independent administration.

Most observers find justification for the Presidential change of mind. Since the days of the Federal Aviation Commission, air transport has grown to a major arm of war and foreign relations, and as such, they say, is entitled to regulation by a separate authority.

Coast Labor Confab

Employers group reports progress in meetings with labor leaders. Company unions at issue.

In San Francisco, a series of significant labor meetings is in progress between representatives of the city's employers and the unions, both A.F.L. and C.I.O. Quiet discussions are being held in an attempt to reach an understanding which will reduce strikes and lockouts to a minimum by removing their causes. There will be an attempt to set up machinery for peaceful settlement of labor disputes if the conferences get that far.

The meetings were suggested by the Committee of Forty-Three, a kind of employers' C.I.O. recently organized in the San Francisco Bay Area (*BW—Dec 25'37,p27*). First to meet with the "43 group" in any of its half-dozen meetings was Harry Bridges, representing the C.I.O. unions

Causes of Friction

Out of the discussions there is emerging a pretty definite indication of what the unions regard as the chief causes of friction. Wages, as a source of trouble, have been mentioned only casually. Instead, unions are emphasizing employer practices which they believe threaten their existence. If these can be eliminated, unions feel that collective bargaining negotiations will satisfactorily resolve such issues as wages, hours, and working conditions.

Specifically, the unions are asking that the Committee of Forty-Three agree that its members will eliminate company unions and the practice of planting spies in their ranks as "informers" and "trouble breeders." The employers counter with a request that the terms "company union" and "labor spy" be defined. In the discussion, Harry Bridges announced frankly: "We know exactly who the spies are in the longshoremen's union. We can expose them at any time, but so far they haven't hurt us; so we've let them alone. They are simply costing you money."

As to Closed Shop—

In discussing the closed shop, labor representatives so far have taken the position that their demands mean only that all "new men" join the union. They say they are not in favor of forcing employers to fire old workers who refuse to sign up.

The hardest nut to crack in attempting to set up machinery for settling disputes is the problem of abiding by contracts. The employers have asked for assurances that agreements will be kept by the union under all circumstances. The unions have replied that they will be observed "to the best of

their ability," and they are having considerable difficulty in explaining why reservations have to be made.

Bridges cited cases where workers believe conditions are unsafe, although employers hold otherwise, and he pointed out that, if the "peace machinery" should decide with the employer and the men quit work, a contract would be violated. There are times, too, he explained, when unions must come to the aid of the labor movement in general even if it involves breaking agreements.

On the agenda for future discussion is the matter of jurisdictional disputes and the establishment of picket lines where no dispute with an employer exists.

New England Industry

200 leaders discuss success in attracting an increasing number of factories.

MANUFACTURING competition of other sections of the country was challenged by New Englanders this week when about 200 industrial and business leaders met at Boston under the auspices of the New England Council. Case records were cited from many New England cities to show the success which has been achieved in transforming numerous large single mill properties into branch plants of nationally known industries and into multiple factories producing diversified products. Methods of retaining existing industries and of encouraging new enterprises featured the program.

New England gained 1,232 manufacturing plants net between 1933 and 1935, and bettered this in the last two years, asserted John O. Krobrock, who presided. In 18 months about 25,000,000 square feet of idle factory space have been sold or leased; in the first 11 months of 1937 contracts totaling $11,000,000 were awarded for new factory building, and in the past two years construction doubled that of the previous two.

At Waltham, Mass., 46 new firms have created 1,546 jobs and annual wages of $1,750,000 in a city famous mainly for watch manufacture. Fifteen firms replaced a single mill which went under, and now products such as ice tongs, butter forks, Lincoln plaques, metal polish, table novelties and electrical supplies are making a new name for the place. At Pawtucket, R. I., 25 new firms have come in since 1935. Vermont, chiefly agricultural, rejoices in the two years' addition of 24 new companies employing 2,219 workers, and no recorded emigration to other states. Connecticut, Rhode Island, and the Boston area are all showing new life.

Oppose Auto Plan

Insurance agents say "safe driver" reward isn't what it's cracked up to be.

The "safe driving reward plan" for automobile insurance (*BW—Jan1'38,p 34*) was stymied this week by bitter attacks from the agents who must sell the policies. Several conferences between the National Association of Insurance Agents, the National Association of Casualty and Surety Agents, and the National Bureau of Casualty and Surety Underwriters were held and announcement of a compromise is expected shortly.

The 15% rebate to drivers after a year without an accident is sponsored by the 38 companies which are members of the National Bureau of Casualty and Surety Underwriters. Some other companies already have plans of the same general kind. Scarcely had the bureau's plan been promulgated before the criticism started. The agents declare it isn't a 15% reward at all—that premiums paid by insurance buyers are to be hiked 4.8% before the plan goes into effect.

Agents' Contentions

The agents also deplore the 5% cut in their own commissions which is part of the plan. They contend that the lower commissions will reduce agents' incentive to push the policies and that the boost in premiums will make the insurance harder to sell to the public. This, they insist, will cut the volume of business of the underwriters offering the plan—the exact reverse of the effect for which the plan was designed.

Meanwhile, the 38 "bureau" companies haven't submitted the plan to the various state authorities who must approve it before it goes into effect.

This week's conferences were the outgrowth of a dozen or more protests from agents' regional associations (the North Carolina agents are the only ones so far to register approval). The agents applaud the idea of rewarding drivers, but they want some other plan.

Against Higher Cost to Public

They oppose increased cost to the public although they probably would be willing to take modest reductions in their net commissions. One of the most popular plans would start the driver with a small reward for an accidentless year. Thereafter the reward would rise with each year of safe driving to a maximum rebate of 20%, which would run indefinitely.

The agents want to deduct the reward from the following year's premium which would save the cost of mailing out checks—and also would tend to keep the insurer with the same underwriter.

Fight Power Ban

Ontario and Quebec protest Canadian restriction on sale of electrical energy to U. S.

OTTAWA—Demand of Ontario and Quebec for lifting of the federal embargo on the export of electric power to the United States will be a fighting issue in parliament after the opening late this month. The embargo has been the continuing policy of successive Ottawa governments for several years. It rests on the double idea that retention of the power in Canada is likely to encourage industrial development on the northern rather than on the southern side of the international border and that if the power were exported it would be difficult to discontinue export later, when it was needed here, without giving offense to the United States.

Ontario has bought more power from Quebec power companies than it needs for the present and wants to sell some. Beauharnois and other big Quebec companies are backing up the provincial governments. Prime Minister Mackenzie King proposes to dodge the issue by putting it up to parliament.

With both the Ontario and Quebec provincial governments showing dictatorial tendencies, the threat of fascism on behalf of power interests and other interests is being alleged. It will be a feature of the House of Commons fight.

Newsprint Threat

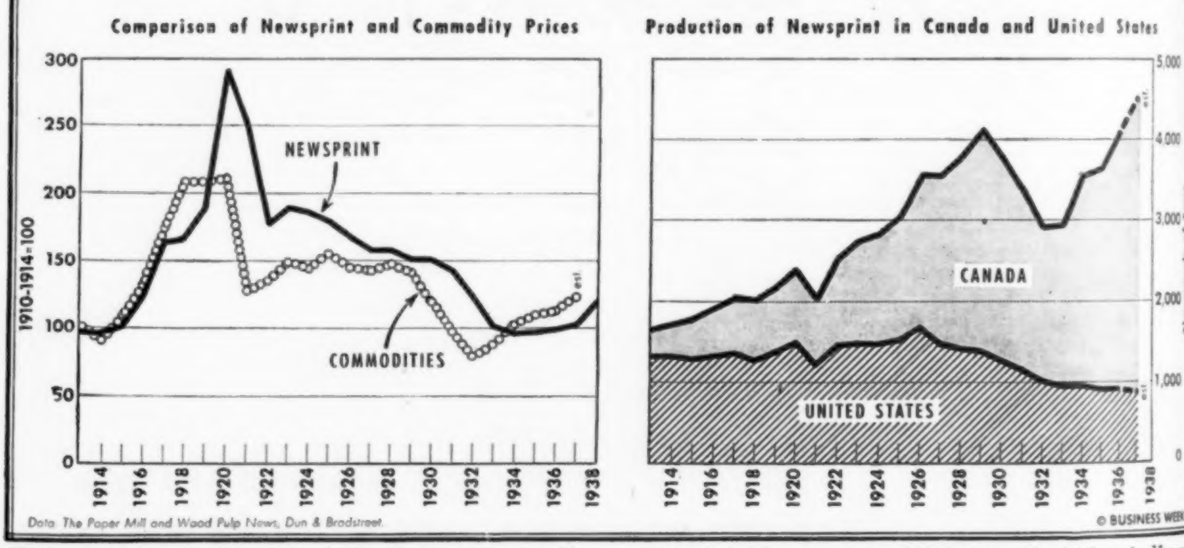
Canada may lose a customer, as Australia plans to produce its own supply.

VANCOUVER—Ever since the price of newsprint bounded over $200 a ton during the war years (see chart on this page), Australian publishers have sought a means of making themselves at least partly independent of the foreign paper market. At present they are obliged to import all their paper, about 70% of it from Canada. Large as this dependence on Canada is, Dominion newsprint exports to Australia are a comparatively small part of total exports, the bulk of which go to the United States.

Australia's trouble in obtaining a domestic supply of newsprint has been chiefly chemical. Repeated experiments indicated that the native woods, such as the eucalyptus, contained too much gum to be readily assimilated in the process of making groundwood pulp from which newsprint is produced. However, a few months ago a shipment of Australian eucalyptus wood was made to the British Columbia paper town of Ocean Falls, where Pacific Mills, Ltd., Canadian subsidiary of Crown Zellerbach Corp., of San Francisco, has long operated one of western Canada's biggest newsprint plants. Now it is announced that a way has been found to manufacture newsprint from the eucalyptus wood, and Percy Sandwell, Vancouver consulting engineer, has been instructed by a group in Australia to go ahead with plans for a $15,000,000 400-ton newsprint mill which is to be built in Tasmania and which is expected to supply more than half of Australia's newsprint needs.

If there were no threat to the Dominion's newsprint business from the development of southern pine in the United States, the Australian news would have created a big stir only among a few producers mainly concerned. Coinciding as it does with the threat of declining business in the United States, Canada's largest newsprint market, it is causing some concern in the industry.

NEWSPRINT PRICE DEPENDS ON CANADIAN PRODUCTION



THE United States buys the bulk of its newsprint from Canada. During and immediately after the war, demand outstripped supply, and the price soared to unreasonable levels. The depression completed an interrupted price deflation; many newsprint producers proved conclusively to despondent stockholders that they couldn't operate profitably at 1934-35 price lows.

Protective committees of security holders have cooperated with management in raising prices to more profitable levels, but when they insisted last March that 1938 prices would be boosted from $42.50 a ton to $50, they ran into the opposition of consumers, largely United States newspaper publishers who feared prices were headed for disastrous highs.

Heavy advance buying built up large stocks by consumers before the end of the year. At the same time, the last quarter business recession cut consumption nearly 10%. When Jan. 1 arrived—the date when the $50 price became effective—publishers' stocks were above 555,000 tons, the highest in 15 years, and the newsprint industry was frightened.

The contract price has been set for all of 1938 at $50. To maintain it, the industry—still not very strong financially—must curtail production or be prepared to carry heavy stocks. The Abitibi Power & Paper Co. has already curtailed production by going on a 3-day week for January.

Production may drop to 60% of capacity during the first quarter of 1938, but unless consumption declines further, present stocks are expected to be pretty well worked off by Apr. 1. Newsprint production for all of 1938 is expected to pass 3,000,000 tons, compared with 3,650,000 in 1937.

Worry of the future is the threat of large-scale production from southern pine in the United States, the loss of other smaller markets like Australia which is planning to produce its own newsprint.

Business Abroad

Last week's optimism is modified. Italy has no luck wooing Hungary and Austria. Japan formulates major policies for Empire consolidation.

LAST WEEK'S rather bright business outlook has not been maintained this week, though there has as yet been no return to the year-end gloom. Business confidence simply seems unable to sustain last week's enthusiasm until more encouraging signs appear in the picture.

Commodities pretty well held the gains made last week, but there was a distinct pause in the flurry of stock replenishing in most lines. Stock exchanges were less successful in maintaining recent gains, though Paris was the only major market which was really depressed.

On the foreign exchanges, the franc was weak on the recurrence of labor troubles and a strike epidemic. Brazil started rationing exchange to cover the commercial bills which have been accumulating since the embargo was placed on foreign exchange on Dec. 23.

The conferences which Rome has been sponsoring with Hungary and Austria have failed to win these two countries over to the idea of following Germany and Italy out of the League of Nations and into the formal anti-communist bloc. There has been a distinct cooling of relations with Rome since Italy more or less abandoned the elaborate efforts of a few years ago to keep these two nations from falling under German domination by offering to increase Italian purchases of their goods. The Danube basin is still a powder keg which may explode any time.

In the Far East, Japan is evidently trying to lay out its China program for the next year or more, and finding it a bigger problem than any that has developed since Japan entered the World War. Tokyo knows now that a show-down with the Soviet Union is ultimately inevitable, and that Britain and probably the United States will also be involved.

Realists on the spot today declare that Moscow is operating on the basis that, if it goes alone to the aid of China, it will refuse to protect other foreign interests there unless the interested parties offer some attractive bargain. Evidence so far is that London prefers to wait for American action rather than make a deal with Moscow to handle the problem.

In this connection, the United States-Canadian air transport conversations in Washington this week have been watched with particular interest for any sign of cooperative air action in the Pacific. Canada hoped to swap overland rights between the United States and Alaska for an Imperial Airways (British) right-of-way over Alaska to Asia.

Since the conference was first considered, however, flying boats have made such striking progress that it now seems likely that the United States will fly the Seattle-Alaska route over water rather than make any big concession to win rights to fly over Canadian territory. Washington believes that Pan American's next extension will be to Alaska over the coast route.

Negotiations for the new trade agreement with Italy are at a standstill, presumably because Rome has been insisting that Washington recognize in the pact that the King of Italy is also the Emperor of Ethiopia.

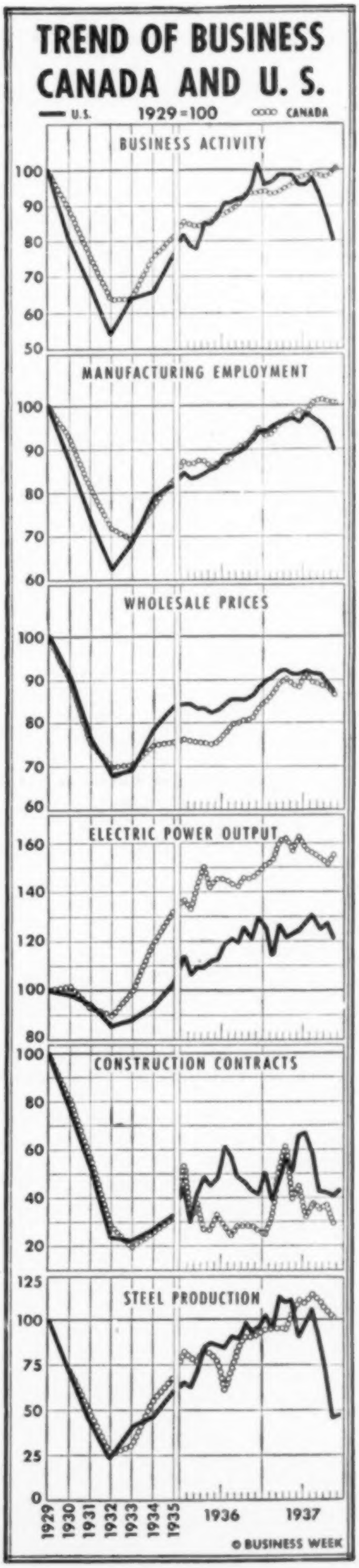
Far East

Japanese industrialists push plans for China development. Manchukuo revises tariffs. American movies likely to be squeezed out of China.

TOKYO—Investigators for half a dozen important Japanese electric power firms are already in North China, surveying the field there in anticipation of a formal entry of Japanese power interests in China. It is further reported here that a party of industrial experts has left Peking for the interior of Shansi province (reputedly rich in minerals) on a prolonged tour of reconnaissance. The party included representatives of the Onoda Cement, Oji Paper, Shanghai Spinning, Japan Flour, Toyota Automobile, and other key manufacturing organizations.

Manchukuo has altered its tariff schedules for the fourth time in its five-year history. The object of the new schedule is to make the nation's staple industries begin paying for themselves as soon as possible. Rates on mined and manufactured articles and machinery for industry are adjusted, but items essential in building up such important industries as aircraft construction, light metal refining, gold mining and refining, coal liquefaction, iron manufacturing, hydro-electric power generation and agricultural implements have been put on the free list.

American movie producers have a new source of concern in the Far East, once one of their best overseas markets. They are no longer distributing in Manchukuo in protest against



the official film monopoly there, and it is now believed that a similar system will be adopted by the new provisional government in Peking, according to American film distributors who are following the situation closely here.

Canada

Dominion reacts to business sluggishness abroad. Unemployment insurance program hits snag. List is ready for new trade talks in Washington.

OTTAWA—Domestic trade is sluggish. Cumulative effects of external conditions have spread, now touching more than half the Canadian industrial field. Heavy industries are slackening somewhat, although they are still ahead of last year's levels. Exports to the United Kingdom have, so far, counterbalanced the loss in trade to the United States. Rail revenues are off, with carloadings down, and bank clearings are dipped sharply. The official economic index, however, is fractionally up for the latest week compared with the previous week. It stood at 106.6 compared with 115.2 for the corresponding week a year ago.

Aircraft plants are busy. Fleet Aircraft Co. of Fort Erie, Ontario, reports orders for 70 new planes, part for the Canadian government, part for private Canadian buyers, part for export.

The cost of living is rising moderately. The official index was 84.3 for December, compared with 84.2 for November. While wholesale prices have been advancing, there has been little change so far in retail prices.

Following a pilgrimage of United States publishers to Toronto and Montreal, Premiers Hepburn of Ontario and Duplessis of Quebec have been meeting on the newsprint situation. The aim is interprovincial policy for bolstering the industry. With stocks in the hands of United States publishers at an unusually high level, production of newsprint is being further curtailed. It is now down to around 50% of capacity (page 46). Plans for new mills in Ontario are now being abandoned.

Canadian National Railway sold an entire bond issue of $50,000,000 guaranteed by the government in a little over an hour this week. The proceeds are to reimburse the government for advances since 1932. The issue consisted of $20,000,000 of 4-year 2% bonds, and $30,000,000 of 13-year 3% bonds.

Canadian Pacific Railway is spending $10,000,000 on equipment, both freight cars and locomotives.

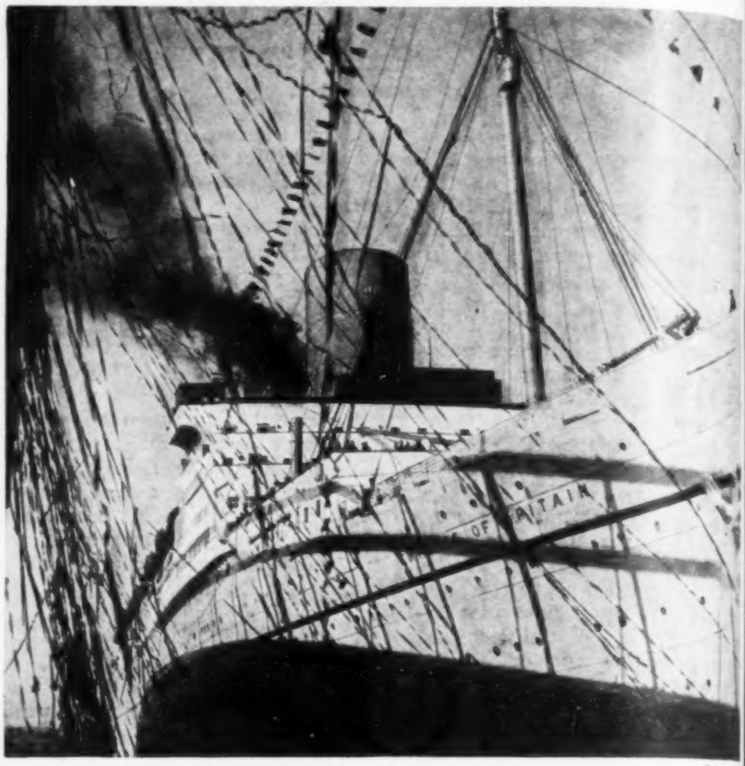
Early in the parliamentary session, which opens at the end of the month, the government will ask for further increased votes for armaments. An attempt to raise opposition in Quebec against arming for war has failed, an anti-armament candidate for the House of Commons being heavily defeated in a Quebec by-election a few days ago, but another has entered a Montreal by-election. Much of current armament expenditure is going to Pacific Coast defenses.

Unemployment insurance, proposed by Prime Minister Mackenzie King for this year's parliament, has met with a snag in the definite refusal of the Quebec provincial government to consent to Constitutional amendment for the purpose. Premier Duplessis of Quebec claims Ottawa is going too far in the direction of centralized authority, and holds unemployment insurance need not necessarily be federally administered.

Agricultural price levels are expected to remain satisfactory during 1938, according to an official Ottawa survey.

The government is preparing the list of tariff items and products on which it will demand concessions and be prepared to give them in the negotiations for revision of the United States-Canada reciprocity pact which will be carried on with Washington simultaneously with the Anglo-United States talks. But the list will not be made public as in the United States. The government, under the Canadian system, must take responsibility for tariff changes and these are not revealed to the public until they are decided upon and submitted to parliament. Private

Bon Voyage — But Recession Hits Cruise Business



International

WITH streamers stretched from its deck to the dock, the round-the-world cruise ship *Empress of Britain* made a happy sight this week as she warped out of her New York berth. But despite this and other sailings since the first of the year, the cruise business has run into the effects of recession. Missing was the *Bremen*, luxury greyhound of the North Atlantic which nearly a year ago, at the end of the most successful post-depression cruise season, scheduled a tour for early in 1938. The *Bremen* cruise was cancelled when the recession made it evident that bookings would be too small to warrant the sailing. And early this week Raymond & Whitcomb cancelled four special cruises which were to have been made in January, February and March in the *Paris*, under charter from the French Line. Later in the season nine more sailings were abandoned. It was announced that the Hamburg-American Line-North German Lloyd liner Berlin would not make her remaining seven voyages to Havana and Kingston; the Simmons Tours had dropped its plans to operate the *Roma* to Havana; and the Cunard White Star, Ltd., has cancelled the *Britannic's* West Indies cruise. Travel authorities admit that dollar volume for the cruise season is 25% below last year's good record. When the market has the jitters, people don't always give up their trips, but they do take cheaper accommodations and shorter vacations.

the government surveys the possible effect on Canadian interests, consults representatives of industry and business where necessary. But Canadians will know little of what is actually proposed in connection with the treaty until after the bargain is made.

France

French strike epidemic threatens to undo all that Chautemps has accomplished in restoring confidence.

PARIS (*Wireless*)—The business outlook in France is gloomy this week, due mainly to the inability of the government to find some working basis for patching up differences between labor and capital.

Stock and bond prices are both off. The franc has weakened in the foreign exchange market, forward francs selling at a sharp discount in spite of the support offered by the stabilization fund. Hoarding has been resumed.

The epidemic of strikes is spreading, in spite of the concerted efforts of the government to deal vigorously with the situation. Representatives of both the General Confederation of Labor and the French Employers' Association were invited to a conference, but the employers have refused to confer unless all workers' organizations were invited to participate, and insisted that talks must not touch on fundamental reforms of the social system, or on "basic principles of liberty and property, which are outside the jurisdiction of occupational organizations."

This means that employers are refusing to discuss any suggestions that they give up their absolute right to hire and fire as they please, and since this is one of the main points demanded by labor there is small hope that the conference can accomplish much.

Labor leaders are reported to be more willing to cooperate with the government than their radical followers, many of whom dominate their local unions. On the other hand, the Chautemps government still depends on the Popular Front nucleus for its support in parliament, in spite of the fact that this support has shifted slightly to the right in the last eight months. A government crisis is thus distinctly a possibility which is affecting the outlook.

Business Week has pointed out at various times in the last few months that the improved outlook in France was largely financial, and without the soundness of industrial readjustment which is still necessary in France. The present crisis may pull the support from under all of the financial and monetary gains of the last few months unless labor-capital relations are readjusted to a basis on which both can cooperate.

FOREIGN ANGLES

It has been claimed that Washington is unofficially interested in the spread of the Japanese boycott in this country, though it will never officially sponsor it. A survey of the 1,000 items on which this country is ready to bargain tariff cuts with the British shows that Japan was an important supplier—if not the leading supplier—in many cases in 1936. Since all concessions are generalized (except to Germany and Australia), Washington may be taking the more liberal attitude of tempting Japan into a friendlier state with a taste of freer trade won without force.

* * *

More frequently than Japan, Germany is a contender with Britain for a leading place as supplier to us of many of the 1,000 items on the Anglo-United States trade bargaining list. Since Germany, so long as it is on the tariff blacklist, is deprived of any concessions granted, German exporters view the pending negotiations with alarm. Reich foreign trade is already suffering from the recession and cannot easily stand the loss of any U. S. business which helps pay for orders of food and cotton.

* * *

Support for the Hull reciprocal trade program goes beyond party lines. Colonel Frank Knox, speaking at a "plain folks" Republican program in Cleveland, declared: "We must speak up in unmistakable terms to those industries which, through excessive tariff schedules, have enjoyed a monopoly of the domestic market and thus inordinately increased the cost of living for both farmers and workers. The Republican party could then, with both logic and justice, oppose any project for direct cash subsidies to agriculture."

* * *

One important national woman's organization evidently will not back the Japanese boycott. Speaking this week in New York, Mrs. M. S. Dooley, chairman of the Department of Government and Foreign Policy of the New York State League of Women Voters, said: "If we should put on an informal boycott, we would be putting on sanctions. A limited boycott would not work for it would defeat the ends intended by our program. We should have corrective action in mind, we should use our dynamic power and not use penalties."

* * *

But the London Cooperative Society, claimed to be the world's largest with 700,000 members and an annual turnover of $75,000,000—has ordered the society's buyers to purchase no more Japanese goods whenever an alternative supply is available.

* * *

Moves by both London and Washington to strengthen their ties with Turkey are as much political as economic, and must be interpreted in the light of Nazi Germany's newest program to *"push to the East."* Washington is maneuvering by means of the reciprocal trade program. London is preparing to entertain an important Turkish financial mission due in England late this month to continue negotiations commenced in Ankara for more British capital to develop Turkish industries and mines.

* * *

The Van Zeeland report on economic plans for rehabilitation of Europe has been delayed because of the reluctant acknowledgement in London that economic compromising (even if loans are included) is not likely to win sincere cooperation from the fascist bloc. The report, nevertheless, is expected to recommend creation of a special fund in the Bank of Settlements to help countries in need of raw materials, abolishment of clearing agreements, creation of colonial companies allowing for German participation, and creation of a special committee to study international economic problems.

* * *

Americans may not legally deduct from their taxable income the amount of taxes levied on their investments by foreign governments, according to this week's Supreme Court ruling. Test case involved payments in Britain where taxes are deducted automatically before dividends are paid.

Great Britain

Commodity markets good, but stock prices uneven. London has color photography project.

LONDON (*Cable*)—British stock markets were irregular this week but not generally off. The feeling is growing that business activity has touched a post-depression plateau from which it will decline if there is a prolonged slump in the United States, but from which it will move upward again whenever assured of sound recovery in the United States.

Commodity prices were generally steady, after last week's notable hardening, and the outlook remains fairly bright for the near future. British industry can count on government expenditures of at least $1,500,000,000 for rearmament in the year beginning Apr. 1. The general resumption of big navy programs, particularly in Italy and Japan, is expected to boost the British naval budget. It is this prospect of larger naval spending which is behind the improvement in metal prices. Russia and Japan are said to have been heavy buyers of copper since the beginning of the year, which emphasizes the fear of a new outbreak in the Far East.

Shareholders in shipping companies, after being disappointed during the last quarter of 1937 by declining freight rates, have been encouraged during the last few weeks by reports of steady improvement in demand for bottoms, particularly in the Eastern and Australian services.

Shipyards report interesting data concerning construction of motor ships. More than 190 motor vessels were built throughout the world last year, according to *The Motor Ship*, representing a tonnage of 1,169,000, largest since 1931. More spectacular is the report that 2,831,000 tons are still on order, the highest figure ever on the books at one time. British yards took the lead in construction during 1937, but Germany may steal the lead in 1938, as she has about 800,000 tons on order.

Automobile orders are still lagging, especially in the higher price classes.

Important color photography developments have just been released here. A 53-year old Viennese photochemist by the name of A. von Bariss who is working in London claims to have perfected a method whereby he can take, develop, and print a color picture in 90 minutes at a total retail cost of 1s 6d (about 38¢) for a 4½"x 3¼" print. Further prints can be run off every 45 seconds at a cost of about 8¢ each.

Color films rapidly produced, with many copies, for use in the motion picture industry are one of the developments foreshadowed.

Anglo-Irish trade relations are expected to be improved at the conference of officials of the two countries beginning in London on Jan. 17.

Germany

Industry is active but need for abnormal food imports will cut funds for purchase of industrial raw materials.

BERLIN (*Cable*)—Though the continuous flow of public orders still provides for capacity employment in most industries, business is nervous about the possible effect of a relapse in export trade and dwindling food supplies. Both factors automatically reduce the amount of foreign exchange available for imports of the industrial raw materials necessary to keep industry going.

The Four-Year Plan is making headway in Germany, but none of the new substitute-producing industries except synthetic gasoline will be able to produce on a mass basis in 1938. For this reason, it is considered a critical year, and the outlook in January is not bright.

The food situation is bad. The fodder shortage last year caused a drop of 10% in the number of hogs growing up in Germany. To keep the remainder alive, the Reich has been compelled to import 1,900,000 tons of corn, mostly from the Argentine, compared with only 166,000 tons in 1936. When scanty supplies of foreign exchange are spent for the purchase of food and fodder to cover an abnormal domestic shortage, it reduces the amount of funds available for the purchase of cotton, copper, and other industrial raw materials which Germany always buys abroad.

Money and the Markets

Despite profit-taking, prices remain firm in most fields. There is a further drop in number of brokerage accounts that are under-margined. Cotton textiles and non-ferrous metals respond to buying.

MOST of the leading markets had to pause this week to catch breath after their substantial advances in the several preceding sessions. Profit taking was pronounced in stocks and in several of the commodities and non-ferrous metals which have marked up the best gains since the turn of the year.

Nevertheless, price structures were firm in most lines. There continued to be unmistakable inventory buying in some raw materials. The attitude of friendliness and assurance which seemed to emanate from President Roosevelt's conferences with business and utility leaders also proved constructive.

Traders Remain Hopeful

The financial community still doesn't know quite what to expect from Washington—whether it will be a little government spending and quite a lot of cooperation with industry, or whether it will be quite a lot of spending and a bit of cracking down. Pending clarification, there seems to be a disposition to take things pretty much at their face value.

Trading sentiment toward stocks, by and large, is not unfriendly in spite of the substantial recovery from the recent lows. One constructive factor is the further decline in the number of brokerage accounts which are "restricted" as to margin requirements.

The only available statistics on this are the reports compiled by 20 New York Stock Exchange member firms. Before the reduction in margin requirements on Nov. 1, 39% of these brokers' clients didn't have the full 55% margin against their commitments. In September it was even worse—more than 47% of all accounts were frozen. But, after the margin cut, restricted accounts dropped to 15.1% and late in December only 12.3% of the clients of these firms were in the restricted zone.

This change not only indicates more buying power, but it also means less distressed selling in case of a shakeout.

Business and securities analysts continue to derive about as much encouragement from the commodity markets as from any single indicator. Hand-to-mouth buying of raw materials in December indicated that business had chewed up a lot of accumulated inventory (*BW—Dec18'37,p13*). This seemed to foreshadow fairly substantial purchasing after the year-end inventory taking had been completed, and something of this character seems to be developing.

Cotton Goods in Demand

One of the woefully depressed lines which are showing signs of life is cotton textiles. Gray goods have been selling in much better volume and at rising prices. This promises at least a fair rebound from December's low levels when cotton consumption, according to a New York Cotton Exchange estimate, fell to 415,000 bales against 485,000 in November and 695,000 in December, 1936.

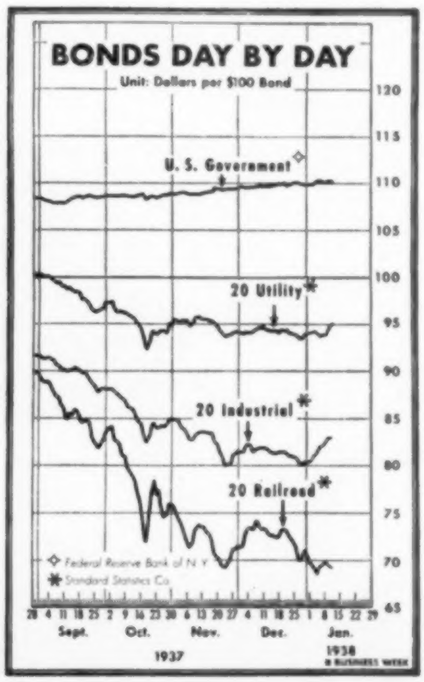
Non-ferrous metal markets have witnessed a distinct, though hardly spectacular, increase in activity. Copper has edged up about a cent from the December low of 10¢ a lb. and shows signs of being able to hold its gains. Lead this week has been purchased in

Too Hot to Handle

Last week *Business Week* pointed out that the New York Stock Exchange had a delicate job on its hands in inflicting service charges on inactive brokerage accounts (*BW—Jan8'38,p56*). This week the governing committee acknowledged the difficulty by the simple expedient of rescinding the charges.

The governors directed the committee on quotations and commissions to investigate the matter all over again. A large number of brokers' protests prompted the action. Customers either misunderstood the proposal to charge them $2 a month or they didn't like it.

Strangely enough, when members voted on the proposal to raise commissions and charges to the public, the service charge received the most favorable response.



the best volume of the last three months at higher quotations.

There has been a distinct improvement in the markets for paint and soap oils this week, a heartening evidence of reduced inventories in these lines. In the edible oils, ample supplies still act to curb any very substantial rise in prices, but quotations are at least firm.

The cottonseed oil report this week came up to expectations. December consumption (based on disappearance) amounted to 358,328 bbl., against 351,616 a year ago, and brought the total for the first five months of the new crop year to 1,989,627 bbl., against 1,373,430 in the like 1936 period.

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Pin-Down—For many years it has been a financial custom to provide investors with *pro forma* balance sheets in connection with new securities offerings. The wording would go something like this: "Giving effect to this financing, the company's balance sheet will be as follows:—." And then would come the balance sheet nicely fattened out by the additional capital the corporation was in process of raising. But the SEC has turned thumbs down on such pictures.

Hereafter, balance sheets giving effect to contemplated financing will not be permitted to be used in a security circular unless the company has received a firm commitment from an underwriting group to purchase the offered securities at a firm price. And the underwriters must be "irrevocably bound" to make purchase, and the names of the underwriters must be clearly stated in the offering circular "in type at least as large as that used generally in the body of the statement."

That, of course, puts a halter on imaginative statements, which from time to time have been the prop of newly organized corporations whose business was largely on paper. Not only did such "cuff" corporations present fanciful balance sheets "giving effect to this financing," but also they tended to show expected profits, based on purely imaginative income accounts.

Indeed, the practice has not been confined to new enterprises. The Chicago, Milwaukee, St. Paul & Pacific Railroad had some extensive correspondence with its attorneys early in 1934 about including "when, as and if" assets in its application for a Public Works Administration loan of $3,500,000.

If the road had presented a simple statement, it would have shown a cash deficit of $3,726,500 by July, 1934. This caused W. W. K. Sparrow, the road's chief financial officer, to write to Donald C. Swatley, of the law firm of Cravath, de Gersdorf, Swaine & Wood: "In other words we would be bankrupt. Therefore, I do not think we want to present this picture."

Instead, Mr. Sparrow suggested including under receipts $8,000,000 of loans, even though they were only contemplated loans and had not even been approved by the board of directors. Mr.

Urges Cooperation

Wide World

EVERYTHING points to more rather than less government in business "and we as business men will be rendering the best service to all the people we serve . . . if we recognize the way the wind is blowing and develop a greater spirit of cooperation," says Robert H. Cabell, president of Armour & Co. Sponsoring a philosophy which differs from that of many business leaders, Mr. Cabell urges that industry "abandon the practice of stubbornly resisting every proposed change," expresses the opinion that "collective bargaining, unemployment insurance, and old age pensions are things we are going to have with us a long time." and says that "if the American business man is as smart as I think he is, he will trim his sails to the winds, and the ship of commerce and industry will move forward."

Swatley concurred in this suggestion, but recommended that a footnote be appended to indicate that the loans to meet maturities and betterments had not been approved or authorized.

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Boxer Becomes Magnate—Gene (James J. in the board room) Tunney, who made a fortune out of the prize ring and then put a ring on a fortune, is on his way to becoming a contender for the title of the "holder of the most directorships," formerly held by the late Charles Hayden.

Mr. Tunney now is on the "per diem" roster of four companies. He has just been named chairman of the board of American Distilling Co., a subsidiary of American Commercial Alcohol Corp., of which James J. already had been a director. Mr. Tunney will take an active part in the management of American Distilling Co., will attempt to give the liquor business dignity, will frown upon high pressure sales tactics.

After he left the ring and married Polly Lauder, Tunney gradually moved into "big business" circles. He become a director of the Morris Plan Industrial Bank of New York last November, and in 1934 he was elected to the board of the New York Shipbuilding Co. Thus industry is in the process of "magnate-izing" the former king of the prize ring.

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Cotton Restriction—Three different sets of trial balloons have been sent up by the Department of Agriculture in connection with 1938 restriction of cotton acreage. Each time a conscious effort was being made to determine the attitude of Southern farmers and Congressmen to reduced planting, and the effect has been gradually to focus attention on plans for a most drastic curtailment.

Early last autumn, Sec. Wallace hazarded the opinion that cotton acreage should be cut to about 31,000,000 from the approximately 34,100,000 acres planted in 1937. Shortly it became apparent that the cotton crop was much larger than originally anticipated, and he revised the acreage figure down to about 29,000,000. Now that it appears that nearly 18,500,000 bales of cotton were harvested last year and that the carryover into the new crop season Aug. 1 will exceed 11,000,000 bales, the Department of Agriculture is talking of a cotton acreage of not much over 25,000,000 for 1938.

A fairly good yield on 25,000,000 acres wouldn't be much more than 9,500,000 bales; a very good crop shouldn't run over 10,500,000. Such figures would be 3,000,000 to 4,000,000 bales under probable world consumption of American cotton in the 1938-39 crop year. A deficiency of 4,000,000 bales would cut the carryover

on Aug. 1, 1939, to approximately 7,000,000 bales—which is still mighty close to double the normal carryover.

The exact nature of the 1938 cotton program depends upon what Congress decides should be the base acreage for the crop and how far the Agricultural Adjustment Administration may cut quotas from such a base. Both the House and Senate farm bills, which were sent to joint conference, set limits which would just about permit curtailment to the 25,000,000 acres suggested by the Department of Agriculture.

Assuming that such a bill passes, it would be necessary to get two-thirds of the cotton raisers to affirm the quotas in a referendum. In this the AAA will have the assistance of the loans on 1937 cotton—more than 4,400,000 bales already have been pledged for loans, and the growers have to play ball with Triple A or they don't get their bonuses of 3¢ a lb. on 65% of the pledged cotton. Thus, with the loan lever and the likelihood of a new farm bill, the agricultural planners are in an unusually strong position to demand the most sweeping reduction program ever undertaken for an American crop.

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A New Name—Late last week the name of a new underwriting house appeared at the head of the syndicate which was awarded $3,000,000 State of California veterans' welfare bonds. It was Smith, Barney & Co., the organization which resulted from consolidation of two big, well-known financial firms —E. B. Smith & Co. and Chas. D. Barney & Co.—the first of the year (*BW—Dec18'37,p18*).

The financial community will be more interested, perhaps, when the Smith, Barney firm makes its initial appearance in corporate financing. Barney has been best known in the stock and commodity market commission business, but it has had a substantial volume in underwriting and distributing industrial stocks. Smith, on the other hand, has been one of the big originating and underwriting houses in both stocks and bonds. The merger was expected to broaden operations of both.

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Brazil's Problem—There was real reason for Brazil to be worried about coffee when, in November (*BW—Nov 6'37,p56*), most of the restrictions were taken off exports. In three decades this South American nation had seen its share of the world coffee market drop from 80% to 50%. But that isn't the whole story by any means.

During the first half of the 1937-38 crop year (July-December) Brazil has experienced an even more startling decline in consumption of its coffee. The New York Coffee & Sugar Exchange has compiled figures showing that world consumption of coffee in those six months declined from 12,063,829 bags in the 1936 period to 11,490,276, a loss of 573,553. But that isn't the half of it. Consumption of Brazilian coffee in the same interval dropped 1,172,079 bags to a total of 6,197,009 —which means that competitors gained 598,526 bags. In other words, Brazil fell behind a further 16% while other growths were gaining nearly 13%.

Brazil's position in the United States market in the same period was undergoing a similar change. Consumption of coffee in the United States during the six months declined 115,553 bags to 5,641,276. Brazil's share in this market, however, dropped 619,079 bags to 3,122,009, while other nations increased their share by a little over 500,000.

Small wonder, then, that Brazil finally found it imperative virtually to abandon the world's most elaborate experiment in controlled supply.

Business Week

Advertisers in This Issue

January 15, 1938

Editorially Speaking—

"He runs a furniture store," testified a London detective recently against a defendant, "but during the morning rush hour he operates on the Underground Railway picking pockets." When it's the morning rush hour on the Underground, it's probably still slack at the furniture store, and a good business man likes to get his hand in.

Reading a page-proof the other day, we reluctantly corrected one of those typographical errors that practically get down on their knees and beg for a chance to live. It was, "undistributed earrings tax."

C. B. Axford, editor of the *American Banker,* intimates that he is slightly dazed by a sentence in a recent advertisement in *Business Week*: "No attempt will be made here to describe how this extraordinary pump works—except to say that a helical, eccentric rotor rolls with a hypocycloidal motion in a stator moulded to form an internal double helix." Our congratulations to the copywriter. Nobody has ever given a more precise description of the sensation of seasickness.

According to the orthodox economic theory, high wages can't persist in any trade unless there's a scarcity of competent labor. But things occur that make us doubtful. Our friend Butch, moving to a new apartment recently, had a couple of rugs that needed binding, and one that had to have a pad put under it, and also a carpet had to be laid on the stairway. He called up a firm that does this kind of work and arranged to have a man come next morning at 8. Sure enough he showed up promptly at 9:15. Then it turned out that he was a rug-layer and rug-pad-sewer but not a rug-binder, so he phoned to his firm and had a woman sent on to do the binding. Butch was told later that the man contrived to put in about six hours' work, and the woman about 30 minutes'. The bill came to $22.

When Butch asked questions, he was informed that the work somehow added up to nine hours, at $1.75 wages an hour, or $15.75 all told, the remaining $6.25 being the firm's profit; also that while $1.75 was the union rate, non-union firms only charged $1.40. "You mean," said Butch, "that there are non-union firms in this line of business in this town?" "Yes." "And that there are actually nonunion men working at this trade, men who have no union to keep their wages up, and no means of barring competition by newcomers, and that these men get $1.40 an hour just for tacking a carpet?" "That's so." Butch shakes his head, telling this story. He says it's against all the rules laid down by Adam Smith and the other saints of political economy. Butch suspects that wages aren't altogether determined by economic laws, that psychological factors can keep them low in one line and high in another.

Labor News: Mr. and Mrs. Paul Caldwell Wilson have announced the engagement of their daughter, Miss Susanna Wilson, to Mr. David Meredith Hare, son of Mrs. Meredith Hare and the late Meredith Hare, and son-in-law-elect of Secretary of Labor Frances Perkins (Mrs. Paul Caldwell Wilson).

For quite a while now we've been glancing in perplexity at the Harvester Cigar ads. Here's the way one of them begins: " 'Advertising's all right,' said J. L., 'but the fellow who gets the most business in the end is the man who gives his customers the most for their money.' " In other ads, too, Harvester quotes J. L. But it never explains who J. L. is. And we want to know. Who is J. L.? And why is he quoted in a cigar ad? And is the average reader supposed to know who J. L. is? If so, how? We'd like to have these questions answered by somebody on the inside—for example, by Julius Lichtenstein, president and chairman of the Consolidated Cigar Corp., which manufactures Harvester.

R. D. Burchard, Jr., of Cleveland, who sells a Radio Metal Locator, for use in locating metals and hidden treasures, has promised the Federal Trade Commission to stop representing that this device can distinguish between metals such as gold and silver. If that's all the commission has found to complain about, we guess we'll buy one of the locators and hire somebody to distinguish between the gold and the silver after we've dug it up.

One of the charm-school writers is planning a new book, "Your Personality and God." Which may mean, "Your Personality and Your Alibi for It."

"One of the most remarkable flies buzzing on the face of the earth," says the American Petroleum Institute, "probably is the petroleum fly, which lives in shallow pools of waste oil in the California oil fields. . . . Some experts have contended the fly eats and digests crude petroleum. Others assert it gets its sustenance from dead insects caught in the oil."

Twenty years ago we discussed a comparable question with a barfly. We asserted that he lived on a wholly liquid diet, but he swore that once every three days he sat down, loosened his belt, and ate a potato chip.

BUSINESS WEEK

The Journal of Business News and Interpretation

JANUARY 15, 1938

Planning for Business

Among the questions that business men are far from united on is the question of industrial planning, under government auspices. We can have centralized planning for all industry, as under the NRA. We can have it for each of certain distressed industries, as under the Guffey Coal Act. We can have it for each industry, regardless of whether it is distressed. We can have government control, or mere government cooperation. Or we can keep on in about the same way that we have been used to.

For nearly two years, from 1933 to 1935, we made a comprehensive and audacious experiment, the NRA. Then the Supreme Court smashed it, and, to the vast surprise of some observers, business did not totter. But the Administration continued to hanker after some sort of NRA, and in this it had scattered support in the coal, textile, and several other industries. A few weeks ago, however, most people got the impression that the Administration had changed its purpose; for it trained its loudest guns, Jackson and Ickes, on the monster of monopoly, as if meaning to destroy it and to rescue that pure and lovely victim, competition—the same competition that the Sherman Anti-Trust Law of half a century ago was intended to preserve, and that cannot live in the same air with any kind of NRA.

But once again there has come a surprise announcement. In a press conference Mr. Roosevelt, while disclaiming an immediate intention to reenact the NRA, has said he thinks business men should sit around the table with government officials and decide on the probable demand for their products. He added that such discussions would make for a more intelligent group estimate of the purchasing power of the country; that the participants should not try to fix prices or to run competitors out of business; and that there is some doubt as to the legality of such discussions under the present anti-trust laws, but he would like to see them made legal.

In the light of these statements, it appears that the President's purpose in inspiring the Jackson and Ickes speeches was not to prepare for a trust-busting campaign but to focus attention on alleged monopolies and thus persuade the public that regulation is the only way to safeguard the public interest. For inevitably such round-table meetings as he has in mind would mean regulation. There would be a little of it at first, and more later. And as the probable demand for one product is interlinked with the probable demand for other products, it is inevitable that the industry-by-industry planning suggested by the President would become a centralized planning for all industry.

Moreover, what is demand? As used by the President, the term has no independent meaning. The demand for a product is simply its saleability at a certain price. Do you know that this year 10,000,000 automobiles will be sold in the United States if the manufacturers can make that many—and if they cut the price to $100? When business men sit around the table with government officials and decide on the probable demand for their products, they will really be allocating production and fixing prices.

If this is what the President has clearly and unwaveringly in mind, he should say so and let the advantages and disadvantages of his project be debated. Meanwhile, please take notice of a report in this issue of *Business Week* under the headline, "U. S. Helps Oil Industry Plan." The Bureau of Mines issues a monthly forecast of crude-oil demand; but the only reason this forecast has any effect is that the oil-producing states cooperate by limiting production.

Norris' Anxiety for The TVA Majority

With a wild flurry of anxious wings, Sen. Norris flaps forward to the defense of his favorite chick—the power project of the Tennessee Valley Authority. When Sen. Norris asks for an investigation of TVA, it means he doesn't want an investigation. What he wants is to head off an investigation. Chairman Arthur E. Morgan of the TVA has made some pretty weighty charges against his fellow members, David E. Lilienthal and Harcourt A. Morgan. There is a move afoot in Congress to force an investigation by a Congressional committee. Sen. Norris hurriedly moves to switch the investigation into the hands of the Federal Trade Commission, which, being New Deal in its sympathies, could be expected to whitewash the two majority TVA members. These men have lavishly poured government money into uneconomic power developments, and therefore, in Sen. Norris' view, they can do no wrong.

Simplifying Laws On Loss Leaders

There have been conflicting court decisions on the laws enacted by several states to prevent loss-leader sales. These laws, known as Unfair Practices Acts, were put through the legislatures by the pressure of small retailers, who also forced the enactment of the Fair Trade Acts, which authorize manufacturers to fix minimum resale prices. Of these two kinds of legislation, the Unfair Practices Acts are much superior. They are superior in motive and in results.

Most laws of this kind provide that retailers, except when making clearance and other exceptional sales, shall not sell for less than the purchase cost or replacement cost, whichever is lower, plus the "cost of doing business"—which is often defined as 6%. These percentage markups appear to be causing most of the legal difficulty. Probably the wisest thing to do would simply be to forbid sales below the purchase or replacement cost. Of course a sale at the purchase cost means a loss to the seller; but at least this prohibition would stop the most destructive price-cutting, and enforcement would be relatively simple.

Even the most modest kind of law on this subject will have certain bad results. It will hurt those retailers that do a mass business, with a small profit margin per item and a rapid turnover, prices being cut if necessary to move inventory. The public has benefited by such retailing. Laws that forbid below-cost selling will stop some evils but they will not be altogether to the good.

Published weekly by McGraw-Hill Publishing Company, Inc., 330 West 42nd St., New York. Tel. MEdallion 3-0700. Price 20¢. Subscription: $5.00 a year, $10 for three years. U. S. A., possessions, and Canada. Other foreign, $7.50. Cable Code, Mcgrawhill

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